THE INFLUENCES OF BANK-FIRM RELATIONSHIPS IN CREDIT ACCESS OF SMES

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Abstract

Since many SMEs (small and medium-sized enterprises) lack internal resources, they usually look for external credits that banks are the main providers of. However, most of those businesses' main concern is to gain credit access since these businesses are not very efficient when minimizing information asymmetries between them and their lenders. Thus, relationship lending that includes close interactions, long-term relationships, and, close ties between SMEs and banks might reduce information asymmetries and might provide easier credit access conditions for SMEs. In this regard, this research aims to investigate the positive association between the length of the relationship, the closeness of communication, the house bank status, and access to bank credit. In line with this selected purpose, the researcher created an online questionnaire and collected data from 479 SMEs operating in Turkey. To examine the specified relationships, the researcher performed Binary Logistic Regression analyses. The results confirm the positive relationships between the variables of relationship lending and access to finance. Therefore, SMEs focusing on

socializing and networking activities with banks might receive advantages to gain easier credit access conditions. The reasons for these results might be related to cultural, and executive-firm-specific characteristics, including the structure of society, the sectoral experiences, and the length of doing business, respectively.

Keywords

SMEs, Bank Credit, Relationship Lending, Access to Finance

1. Introduction

SMEs provide many benefits for economies since they reduce unemployment rates, increase the number of exports, and positively contribute to countries' GDP. Therefore, they provide socio-economic and technological benefits for countries (Keerati-angkoon, 2022). However, due to a lack of audited financial statements that causes high information asymmetries among lenders and borrowers, they face many barriers to bank credit access (Beltrame et al., 2022). For instance, compared to their larger-sized rivals, those enterprises encounter more credit rationing issues (Cotugno et al., 2013).

To cope with this obstacle, relationship lending that reduces information asymmetries might be a solution (Degryse et al., 2015). Compared to traditional lending methods that focus on hard data such as numerical transactions from financial statements (Berger & Udell, 2006), balance sheets, and, credit ratings (Cotugno et al., 2013), the relationship lending method consists of soft information that can be gained by repeated and collaborative communications among lenders and borrowers (Beltrame et al., 2022). This is because soft information includes intangible assets of businesses and competencies and abilities of executives that cannot be documented (Cotugno et al., 2013). In this regard, close interactions, the length of the relationship and strong ties between banks and SMEs might make banks gain more soft information to reduce information asymmetries that are the main reason for bank credit constraints of SMEs. For this reason, this paper purposes to find out whether relationship lending positively affects bank credit access of SMEs or not. The research question is "Do the variables of relationship lending, namely, the length of the relationship, the closeness of communication, and house bank status have a positive relationship with bank credit access of SMEs?

Some studies separately examine the different variables of relationship lending by considering the geographical distance, the length of the relationship, the closeness of

communication, and house bank status (Cosci et al., 2016; Moro et al., 2015; Petersen & Rajan, 1994). But in today's world, especially during the Covid-19 pandemic, bank officers and firms have used online communication channels more and make more frequent interactions by using mobile phones. Therefore, this paper has more focus on the closeness of communication, close ties, and, close interactions than other studies by including more variables of relationship lending. This fact makes this paper becoming a unique study and making crucial value addition in the related academic literature. Thus, academicians, lending organizations, institutions, banks, SMEs, and their executives might be interested in the results of this empirical research.

The remaining part of this research is organized in the following sequence. Section 2 gives details regarding previous studies and the development of hypotheses, while Section 3 explains the methodological purposes and data collection methods. Moreover, the results are clarified in Section 4. Section 5 discusses the main results and declares some strategies for SMEs to reduce their credit access concerns. In the last section, this research concludes the main points and highlights the limitations and recommendations for further studies.

2. Literature Review

The length of the relationship between banks and SMEs is measured by the number of years that they have in this relationship (Angori et al., 2019) and it also determines the relationship's intensity and effectiveness (Fredriksson, 2007). Firms having a higher number of years in their relationships with banks reduce information asymmetries among both parties because both parties become having repeated interactions and banks gain and accumulate more information about firms (Rotich et al., 2015). For these reasons, firms having more year relationships with banks get better credit opportunities (Berger, Goulding, & Rice, 2014), such as having lower probabilities to face with credit rationing (Angori et al., 2019), high cost and collateral (Degryse et al., 2015). In this regard, they become more likely to access credit compared to other firms having a lack of long-term lending relationships (Cosci et al., 2016; Cucculelli et al., 2019; Rotich et al., 2015). These arguments of the studies make this paper setting a hypothesis as follows:

H1: There is a positive relationship between the length of the relationship with banks and bank credit access of SMEs.

Another important fact that enables SMEs to reduce information asymmetries in their relationship with banks is the closeness of communication. This is because banks have a higher

number of meetings, and interactions with SMEs get more information about firms' quality, financial conditions, and characteristics (Voordeckers & Steijvers, 2006). The closer relationship between SMEs and its borrower also decreases the amount of collateral (Ono & Uesugi, 2009) and the rate of interest and credit rationing that banks ask lenders (Lehmann & Neuberger, 2001). Thus, SMEs have closer communication with banks gain easier credit access conditions, and become more likely to access to credit (Moro et al., 2015; Guida, & Sabato, 2017). In this regard, another hypothesis might be created as follows:

H2: There is a positive relationship between the closeness of communication with banks and bank credit access of SMEs.

Exclusivity or house bank status is determined by the percentage of the main creditor of SMEs in the total credit amount that they have received from various banks (Berger et al., 2005; Cosci et al., 2016; Cenni et al., 2015). For instance, if a firm has only a credit relationship with a bank (called a main or house bank), the percentage that the bank has in the total credit amount will be 100%. The main bank usually has more interactions with firms and gains more knowledge about their borrowers compared to other banks that have lower percentages in the total debt of SMEs (Berger et al., 2005; Cenni et al. 2015). Firms having multiple relationships with different banks, increase the competitiveness in the banking industry and banks might become limited when providing better credit access conditions for SMEs (Degryse et al., 2015). Since the house banks receive more information, they charge SMEs with lower expenses such as credit costs and interest rates (Lehmann & Neuberger, 2001) or ask for a lower amount of collateral (Harhoff & Körting, 1998) and become less likely to apply credit rationing (Cotugno et al., 2013). For this reason, SMEs having a house bank (main bank) in credit relationships benefit from easier credit access (Petersen & Rajan, 1994; Cotugno et al., 2013) and face reduced credit obstacles (Beltrame et al., 2022). The results from those empirical studies make this research setting another hypothesis as follows:

H3: There is a positive relationship between the exclusivity of house bank status and bank credit access of SMEs.

3. Methodology

This empirical research purposes to investigate the impacts of relationship lending on bank credit access of SMEs. The researcher has created an internet-mediated survey to gain research data. For sampling purposes, e-mail lists of SMEs have been received by the researcher

from several chambers of commerce. Concerning sample selection, stratified random sampling and purposive sampling methods are employed and strata are based on seven geographical regions of Turkey. The link to the online survey was shared by e-mail to the randomly selected respondents and 479 Turkish SMEs fulfilled the survey. The survey respondents consisted of owners or managers of SMEs.

To measure relationship lending, the following indicators, namely, the length of relationship (LOR), the closeness of communication (COC), and exclusivity/house bank status (EHS) are included in the analyses. These variables are scaled by categorical ranked data. The survey questions that are used to measure these variables are depicted in Table 1. Moreover, the dependent variable namely, access to bank finance is measured by the following question "Did your firm receive credit from its last bank credit application?". Since the answers to this question are binary (yes-no, dichotomous), the researcher performs Binary Logistic Regression tests for analysis purposes. All the analyses were performed by the researcher in SPSS Statistical Program.

Table 1: *Variables and The Measurements*

Variables	Measurements
The length of the relationship	"How many years have you been transacting with the bank?" ☐ 0-4 years ☐ 5-10 years ☐ more than 10 years
The closeness of communication	"How many times have you been in contact with this bank? (In person, by email, telephone, etc.)" ☐ Once a month or less ☐ Once a week ☐ Several times a week
Exclusivity of house bank status	"What percentage of your total debt financing was provided by this bank?" ☐ Less than 50% ☐ 50-99% ☐ 100%

(Source: Own Processing)

The researcher considers a 5% level of significance for hypotheses testing. Hence, p values that are higher than this significance level make the researcher fail to support alternative hypotheses and accept the null hypotheses that assume the nonexistence of positive associations among the variables of relationship lending and access to finance. Regarding the research models, they are created as follows:

1st, 2nd, and 3rd Binary Logistic regression models, respectively:

$$Y_1 = (\beta_0 + \beta_1 X_1) \tag{1}$$

X_1 – Independent variable (LOR for Model 1)

X_2 – Independent variable (COC for Model 2)

X₃ – Independent variable (EHS for Model 3)

Y₁ – Dependent variable (bank credit access of SMEs in all research models)

β $_{1,2,3}$ – Regression coefficients

β₀ – Constant or intercept term.

Concerning the assumption texting, the researcher first focuses on Linearity and Independence of Errors. Since each research model only includes an independent variable, the author does not analyze the multi-collinearity assumption. To test the linearity assumption, "the interaction term between the predictor and its log transformation" is included in the analysis (Field, 2009). Significant values ($p < 0.05$) of interaction terms do not confirm the fulfillment of this assumption. Table 2 is presented below to indicate the findings for the linearity assumption. According to Table 2, p values (Sig. in the table) for interaction terms for all predictor variables are higher than the 5% significance level (LOR= 0.176, COC=0.060, EHS=0.708). For this reason, this paper does fulfill the linearity assumption.

Table 2: *The Linearity Assumption of the Binary Logistic Regression Models*

Variable	β	S.E.	Wald	df	Sig.	Exp(β)
LinLOR by LOR	1.246	0.920	1.834	1	**0.176**	3.478
LinCOC by COC	0.255	0.136	3.545	1	**0.060**	1.291
LinrEHS by EHS	0.343	0.917	0.140	1	**0.708**	1.409

(Source: Own Processing)

Another assumption that this paper investigates is the Independence of Errors. This assumption examines the relationship between the cases in the research data, and a firm cannot be evaluated at various points in time (Field, 2009). To analyze this assumption, the researcher employs Durbin Watson's test statistics since this test indicates autocorrelation.

As illustrated in Table 3, the values from Durbin Watson Test statistics for the research models are 1.974, 1.964, and 1.945, respectively. Since these values are close to 2, the errors have independence and this fact proves the fulfillment of the Independence of Error assumption for the research models. Moreover, the volumes from -2 log-likelihood statistics and Cox-Snell R2 and Nagelkerke R^2 are included in analyses for the assumption testing. For instance, while -2 log-likelihood statistics represent if the research data fits with the research models, Cox-Snell R^2 and Nagelkerke R^2 show the variabilities in the dependent variable that independent variables determine.

As indicated in Table, 2 log-likelihood with predictors in all of the research models have lower volumes than the Base Model's -2 LL statistics. Hence, the models fit with the data. In other words, adding various independent variables in the research models has caused a better model fit than the base model. Concerning the volumes from Nagelkerke R^2, including LOR, COC, and EHS in the research models explain 1.2, 1.9, and 1.6% variabilities of the credit access of SMEs, respectively.

Table3: *Model Fit and Independence of Errors Assumption of Binary Logistic Regression Models*

	-2 Log likelihood					Cox-Snell R^2 and Nagelkerke R^2		Independence of Errors in Regression Models
Models	**Base model's -2 LL statistics**	**-2 L likelihood with predictors**	**Chi-Square**	**df**	**Sig**	**Cox-Snell**	**Nagel-kerke**	**Durbin Watson Test Statistics**
Model 1	482.694	479.096	3.598	1	**0.048**	0.007	0.012	1.974
Model 2	482.694	476.830	5.864	1	**0.015**	0.012	0.019	1.964
Model 3	482.694	477.762	4.932	1	**0.026**	0.010	0.016	1.945

(Source: Own Processing)

Corresponding to the sample profile, 204 firms are microenterprises (having 0-9 workers), 143 firms are small enterprises (having 10 to 49 employees) and 132 businesses are categorized under medium-sized enterprises (having 50 to 249 workers. Moreover, the majority of SMEs in the sample have a minimum 10-year of operational experience (337 SMEs), while the number of SMEs having less than 10 years of experience is 142. On the other hand, 353 survey participants have a minimum 10-year of sectoral experience, while other survey respondents (126 owners or managers) have less than 10-year sectoral experience. The details regarding the sample profile is also depicted in Table 4 which is presented as follows:

Table 4: *Sample Profile*

		n	**Share**
Firm size	micro	204	42.59%
	small	143	29.85%
	medium	132	27.56%
	Total	479	100%
Firm age	up to 10 years	142	29.65%
	more than 10 years	337	70.35%
Sectoral Experience	up to 10 years	126	26.30%
	more than 10 years	353	73.70%
	Total	479	100%

(Source: Own Processing)

4. Results

The results of the Logistic regression analyses for Model-1 are depicted below in Table 4. According to Table 5, the p-value from the Wald statistic is significant at a 5% significance level. (p= 0.005<0.05). Thus, the length of the relationship is a significant predictor to access to bank finance. As illustrated in this table, β volume for this variable is positive (0.278). In this case, it can be stated that a positive relationship exists between the length of the relationship and access to bank finance and SMEs having higher volumes in the length of the relationship become more likely to access finance. For this reason, this paper supports the H1 hypothesis that assumes a positive relationship between the length of the relationship and access to finance.

Table 5: *The Results of the 1st Research Model*

Variable	β	SE	OR	95% CI	Wald statistic	p
(LOR)	0.278	0.147	1.320	[0.989 1.762]	3.556	**0.005**
Constant	0.829	0.302	2.291		7.520	0.006
Model-1	ATF= 0.829 + 0.284*LOR					

(Source: Own Processing)

Regarding the results of the 2nd research model, they are presented below in Table 6. The P-value for the closeness of communication is significant at a 5% level of significance (p= 0.015<0.05). Moreover, the β coefficient for this variable is 0.320 and it is positive. A one-unit

increase in the volume of the closeness of communication 0.320 times higher the odds of occurrence for access to finance. In other words, SMEs having closer communication with banks are more likely to have access to finance. For these reasons, this paper also supports the H2 hypothesis that assumes a positive association between the closeness of communication and access to bank finance.

Table 6: *The Results of the 2nd Research Model*

Variable	β	SE	OR	95% CI	Wald statistic	p
(COC)	0.320	0.132	1.378	[1.063 1.785]	5.872	**0.015**
Constant	0.689	0.295	1.991		5.432	0.020
Model-2	ATF= 0.689 + 0.320*COC					

(Source: Own Processing)

When it comes to the findings for the 3rd research model, the results from Binary Logistic Regression analyses are illustrated in Table 7. Similar to other research variables that measure relationship lending in this paper, exclusivity or house banks status is also significant to predict access to bank finance (p= 0.027<0.05). Due to having a positive β coefficient (0.364), it can be declared that when the value of SMEs for exclusivity or house bank status rises, SMEs become more likely to access to finance.

Table 7: *The Results of the 3rd Research Model*

Variable	β	SE	OR	95% CI	Wald statistic	p
(EHS)	0.364	0.165	1.439	[1.041 1.988]	4.860	**0.027**
Constant	0.656	0.336	1.927		3.820	0.051
Model-3	ATF= 0.656 + 0.364*EHS					

(Source: Own Processing)

The reason for that is higher volumes in this indicator are positively related to higher probabilities to access finance. In this regard, this paper supports the H3 hypothesis that supposes the existence of a positive relationship between house bank status and access to bank finance. On the other hand, the positive relationship between relationship lending and access to finance might be explained with another indicator namely, the odds ratio. Since all of the odd's ratios for the length of the relationship, the closeness of communication and house bank status is higher than 1

(1.320, 1.378, 1.439, respectively), it can be clarified that as the volumes from these variables increase, the odds occurrence for access finance increase.

5. Discussion

Table 8 is presented below to illustrate the hypotheses testing results.

Table 8: *The Results of Hypotheses Testing*

Hypotheses	Outcomes
H1: There is a positive relationship between the length of the relationship with banks and bank credit access of SMEs.	Supported.
H2: There is a positive relationship between the closeness of communication with banks and bank credit access of SMEs.	Supported.
H3: There is a positive relationship between the exclusivity of house bank status and bank credit access of SMEs.	Supported.

(Source: Own Processing)

As mentioned in Table 8, the positive relationship between relationship lending and access to bank finance is confirmed by the analyses of this research. The result of this paper that confirms the positive association between the length of relationship and access to finance is consistent with the studies of Cosci et al. (2016), Cucculelli et al. (2019), and Rotich et al. (2015) since these researchers also prove this positive association. However, this result is not compatible with the study of Cotugno et al. (2013) which finds the nonexistence of an association between the length of the relationship and credit access.

Regarding the closeness of communication and gaining bank loans, this paper also finds similar results with the studies of Moro et al. (2015) and Guida and Sabato (2017) since these scholars also substantiate the positive relationship among those variables. Moreover, the positive association between house bank status and credit access is also vindicated by this paper as other studies do (Petersen & Rajan, 1994; Cotugno et al., 2013). Similarly, Beltrame et al. (2022) investigate the role of house bank status in the relationship between entrepreneurial orientation and credit access of Italian and Austrian SMEs and confirm the positive contribution of house bank status to this relationship. However, this positive relationship has not been confirmed by some researchers (Carvalho et al., 2015). This fact makes this paper oppose the findings of Carvalho et al. (2015).

The reason why this paper confirms this result might be related to the collectivistic culture of Turkish people. According to Hofstede Index (2022), Turkey is a collectivist country and people usually cooperate to overcome some tasks and time is crucial to develop trust in a relationship. Therefore, by being located in a collectivist society, SMEs and banks might have had close interactions to establish trust in relationship lending, and this fact might have made reducing information asymmetries among both parties. This argument can explain why a positive relationship exists between relationship lending and access to bank finance has been vindicated by the analyses of this research.

Since most of SMEs have been operating for a minimum of 10 years and since the majority of SMEs' managers or owners have more than 10 years of sectoral experience, these firms and executives might have had long-year relationships not only with banks but also with the officers of banks. By doing so, they could have had close interactions and frequent contacts that might enable them to give more information about themselves and their firms. This might be another strong argument for why this paper confirms the positive association between relationship lending and access to finance.

Communication has vital importance to establish trust between people, firms, institutions, and other parties. The development of technologies has also provided many chances for people to have easier contact conditions. Even under the conditions of the Covid-19 pandemic, borrowers and lenders continue to have interactions by having zoom meetings, or mobile phone calls. In this regard, SMEs that are interested in receiving bank credit access need to have close interactions and improve their relationships with banks. In this case, they can minimize uncertainties and signal their quality to lenders. It might also be beneficial for them to participate in conferences, forums, meetings, and other networking activities that banks organize. By doing so, they not only develop trust with their lenders but also become more informed about lending conditions or new credit opportunities for them. On the other hand, the awareness of companies regarding their capabilities and resources also increases their competitiveness (Bakatubia, 2022). In this regard, they can increase their revenues that signal their quality to the lenders, and might receive easier credit access.

6. Conclusion

Although SMEs play an essential role in the development of economies, they encounter many impediments when accessing bank credit. To overcome this issue, they need to reduce

information asymmetries that can be achieved via relationship lending. In this context, this paper investigates whether positive associations exist between the length of the relationship, the closeness of communication, house bank status, and access to finance or not. In parallel with this purpose, the researcher directed an internet-mediated questionnaire to the randomly selected respondents who were executives of 479 SMEs operating in Turkey. Concerning sample selection, the researcher employed stratified random sampling and purposive sampling methods.

To examine the relationship between the specified variables, the researcher used the Binary Logistic Regression test. Moreover, the volumes from -2 Log-likelihood, Cox-Snell R^2 and Nagelkerke R^2, and Durbin Watson Test Statistics are considered by the researcher to test the assumptions of Logistic Regression. According to the results from assumption testing, this paper does not violate any assumption of the Binary Logistic Regression test. Concerning the main results, this paper substantiates the positive associations among the length of the relationship, the closeness of communication, house bank status, and access to bank finance, respectively. The reasons why this paper finds these results might stem from the collectivist characteristics of the country where SMEs are located, the operational experience of SMEs, and the sectoral experience of firm executives.

6.1. Scope of Future Research and Research Limitations

Although this paper examines relationship lending from a widened scope by including various indicators, this research has some limitations. For instance, this paper does not include any numerical, hard data that can be provided from financial statements. It only focuses on soft information that relationship lending provides for both parties of a lending relationship. Moreover, SMEs located in Turkey and bank credit are other limitations of this research. For this reason, further studies can also include and analyze transactional lending methods, other types of businesses from different countries, and various credit options that businesses might receive to have a more comprehensive study.

7. Acknowledgements

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