# UNIVERSITY OF SOUTHAMPTON

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**Access to Credit for SMEs in a European Union Context: an SME Perspective and a Critical Review of Access to Credit**

by

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# ABSTRACT

FACULTY OF BUSINESS & LAW

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## ACCESS TO CREDIT FOR SMES IN A EUROPEAN UNION CONTEXT: AN SME PERSPECTIVE AND A CRITICAL REVIEW OF ACCESS TO CREDIT

Laura Deflorio

SMEs represent about 99% of all businesses within a European Union context and their contribution is recognised as being relevant to economic sustainability and wealth. SMEs' access to finance for development and innovation assumes relevance in the context of a sustainable economy (see European Commission, 2013b; Commission of the European Communities, 2008a).

This study contributes to the existing literature in adding theoretical and empirical evidence on SMEs' access to credit, to investigate those aspects recognised as drivers of SMEs' access to credit. This research aims to address issues relating to SMEs' ability to access credit and to analyse the possible hampering elements in relation to liquidity allocation exercised by financial institutions. The objective is to understand the nature of the phenomena by means of exploring social entities, by the application of an interpretative approach, to inductively discover embedded elements and encapsulate the essence of the research problem. To best probe different elements, the research attempts to analyse the topic through a different lens to provide a new perspective. These aspects represent embedded elements of a case study strategy application. The elements to be reviewed to provide an idiosyncratic perspective are elements of SMEs' access to lending, approaches to lending and local lending effectiveness. These represent interrelated elements of SMEs' access to lending. Transactional Analysis is the theoretical lens that guides the research. Primary data, through a descriptive survey-type approach, endeavours to add SMEs' perspectives and adds to the empirical data. It is important to underline that although banks, as liquidity suppliers, constitute a focal point for this research, the study does not attempt to analyse institutions' financial aspects, nor their perspectives on profit maximisation or sustainability. Rather, the study aims to understand SMEs' perspectives on lending aspects. The research evidences that critical factors like opacity and asymmetry are connected to the risk of lending. The risk element is enhanced by factors like size, age and innovative sectors. These elements contribute negatively to credit distribution, to the total cost of lending and to banks' willingness to lend, which adversely affects SMEs' lifecycles. The study shows that local lending, enhanced by a relationship lending approach to exploit the proximity element, can support SMEs' access to credit. Proximity to SMEs and the environment can, in fact, contribute effectively to promoting economic development and growth.

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# DECLARATION OF AUTHORSHIP

I, Laura Deflorio declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research.

Access to credit for SMEs in a European Union Context: an SME perspective and a critical review of access to credit

I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;
2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;
3. Where I have consulted the published work of others, this is always clearly attributed;
4. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;
5. I have acknowledged all main sources of help;
6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;
7. Parts of this work have been published as: Conference Papers:

Deflorio, L. (2014) “Think Small First”: a proposed way forward to SMEs bank lending in the context of the European Union harmonisation program. Paper presented at the British Academy of Management conference, Belfast, Ireland

Deflorio, L. (2014) Local Lending, a Way Forwards to SMEs’ Credit Access? An Italian Perspective. Paper presented at the International Council for Small Businesses conference, Dublin, Ireland

Deflorio, L. (2013) Lending Methodologies to SMEs: a Cross-Case Study Analysis of United Kingdom, Italy and Germany. Paper Presented at the Institute for Small Business and Entrepreneurship conference, Cardiff, United Kingdom

Date: June 2018

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The importance of SMEs' access to credit is a very relevant factor in the economic development and growth of a country and therefore its social contribution is extremely important. This research is a small contribution to this topic.

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# Chapter 1: Introduction

## 1.1 SMEs' access to credit focus

SMEs, due to their market concentration, in terms of the number of firms and employment, are recognised at the institutional level as a segment which greatly contributes to the European Union's growth, economic wealth, sustainability and research and development. Their ability to withstand market variations or failures assumes relevance within the economic context (e.g. Commission of the European Communities, 2008a; Pelly and Kraemer-Eis, 2012, p.12; European Central Bank, 2012a and Commission of the European Communities, 2008a p.2). SMEs represent a sizeable part of the European single market area, accounting for about a 99% share of all businesses and providing a 67% share of employment (see European Central Bank, 2012c; Barnier, 2012, p.4 and Wymenga et al., 2012, p.15). Micro-businesses are of particular importance, due to the 92% rate of representation within the 99% SME segment share (see Barnier, 2012, p.4; Wilthagen, 2012, p.24 and Wymenga et al., 2012, p.15).

SMEs' access to finance, facilitating development and innovation, assumes a certain weight in the context of development and innovation towards a sustainable economy (e.g. European Commission, 2013b; Commission of the European Communities, 2008a; European Commission, 2009; European Commission, 2011e; European Central Bank, 2013a; European Central Bank, 2013b and European Commission, 2011d). The debate in the extant literature highlights, however, that access to finance represents, for SMEs, one of the obstacles hindering business growth and access to markets (Beck et al., 2005; Beck et al., 2006; Beck and Demirguc-Kunt 2006; Ayyagari et al., 2007; Ayyagari et al., 2008; Pissarides 1999 and European Commission 2011d and European Commission 2011f). An aspect that is underlined by European Union policy makers and highlighted by literature is, in fact, the importance of financial support for SMEs' ability to compete effectively and the role that financial institutions can play within this context. Pissarides (1999, p.519) states "Despite the presence of multiple and often interrelated constraints, however, the widespread belief, on which policies to support SMEs are based, is that lack of finance constitutes the main obstacle to

the growth of SMEs". "The availability of external finance for small and medium enterprises (SMEs) is a topic of significant research interest to academics and an issue of great importance to policy makers around the globe" (Berger and Udell, 2004, p.2).

## 1.2 The 2008 financial crises scenario

Schwab (2010) exemplifies that, in general, economies' performances have been affected by the financial crises of 2008, which brought a reduction in the demand level with consequential negative effects on output and investment (Schwab, 2010 and Sala-I-Martin et al., 2010). Within this perspective, Vinals (cited in Caprotti 2009, p.2) indicates that the financial sector is facing globalisation, which leads to a "new global financial landscape". He further specifies that this new scenario, on the one hand, leads to benefits due to "free international capital flows" and to possible increases in liquidity, investments and returns, while, on the other hand, it increases the potential investment risk and possible transfers of the latter to the global market.

The most recent financial crises, 2007-2008, gave rise to global concerns over financial activities, leading to the downsizing, acquisitions and nationalisation of some of the main players within the financial sector. What followed had a negative impact on liquidity, which led to a 'credit crunch' condition. The recent financial crisis indicates that financial investments can create 'bubbles', which are fictitious conditions within the market, whereby the interrelation between high consumption and pricing distorts the real perception of the economy.

The Bank of England & HM Treasury & FSA (2008), in a consultation paper, highlights how financial institution failures have far-reaching consequences for the economy as a whole, due to the actual real nature of the institutions' 'functions'. How "the financial service sector makes vital contributions to the rest of the economy by matching the resources of savers to the needs of borrowers…, providing firms and individuals with the means to make and receive payments, providing channels for the distribution and diversification of risk to those most willing and able to hold that risk" is highlighted. This allows organisations to optimise trading due to the increase in resources, capital spending and innovation

(Bank of England et al., 2008, p.9). Financial instabilities lead to market uncertainties.

In a discussion paper, Davis (1989) identifies three causes leading to market imbalances which have occurred since the 1970s. These are ‘the interbank crisis in the mid-1970s’, leading to a debt crisis, ‘the crisis in the FRN market’ in 1986 and the ‘equity market crash of October 1987’ (Davis, 1989, p.17), where “FRN stands for the floating rate note and the market crash of October 1987” indicates the stock market failure in Hong Kong and its spreading to the west of Europe. To these should be added the latest financial turmoil of 2007-2008, brought about by the mortgage market ‘bubble’ which, according to Hudson and Maioli (2010, p.2), can be regarded as a ‘solvency crisis’ leading to a ‘liquidity crisis’ and ‘credit crunch’ conditions.

Risks of insolvency and the consequential potential for resource depletion were not dutifully considered (see Hudson and Maioli, 2010 and Cassola et al., 2007). Gibson (1989, p.112) highlights that “firms rely on banks to make investments which are central to a healthy and growing economy”. Crockett, in his survey (1996), evidenced that financial stability is the essence of a stable economic market, where organisations can be efficient in optimising investment and innovation. Furthermore, it is highlighted that “the absence of stability creates damaging uncertainties that can lead to resource misallocation and reduce the willingness to enter into intertemporal contracts” (Crockett, 1996, p.1). The implications brought about by the inability of bank institutions to withstand their financial obligations has, according to Hudson and Maioli (2010), led businesses within the global scene to decrease investments and commercial trading, giving rise to unemployment levels and inflation. Popov and Udell (2010) and Bricogne et al. (2010) highlighted that the financial crisis had an impact on European businesses due to a ‘credit crunch’ condition. There is an indication that organisations relying on exports and on “internationally fragmented supply chains” were negatively affected by the crises (Tanaka, 2009 and Yi, 2009 cited Bricogne et al., 2010, p.6). Newson (2009) stated that the liquidity crisis, following the financial downturn, brought the fear of insolvency to ‘bank’ institutions, and that this loss of confidence was then transferred to the whole economy. Another consequence of liquidity shortages and of high leveraging was organisations’

inability to concentrate on innovation (The Economist, 2010). In the light of these factors, the common view is that financial instability is a situation whereby the economic condition deteriorates due to liquidity shortages, with a consequential 'credit crunch' and a deterioration in organisations' financial positions and activities.

The credit crunch that followed the 2007-2008 financial crises led to a loss of confidence and to spending depreciations to further exacerbate the already fragile liquidity injection for businesses. Within this context and the consequential 'credit crunch' situation, SMEs' access to credit assumes relevance. As envisaged, the depletion of financial resources can have a negative impact on growth and development. Furthermore, it is suggested that financial crises can create an economic imbalance within the firm due to the high dependency on credit which, in these periods, might be reduced due to the financial institutions' high leveraging and risk averseness (Berger and Udell, 2002, p.F32). The EBA (2016, p.8) reports a reduction in banks' lending to SMEs following the 2008 financial crisis. Lending dropped by Euro 41 billion; the difference derived from the fall of Euro 95 billion in 2008 to Euro 54 billion between 2013 and 2014.

## 1.3 Research aim, objectives and questions

The significance that SMEs assume within the social fabric and the weight that finance-type credits can have on those types of business innovation, development and sustainability represented the basis for further exploration. This research focuses on SMEs' ability to access credit and loan finance from banks. The decrease in banks' willingness to provide funds to businesses, brought about by the recessive period, starting in 2008, was relevant in the consideration of the topic selection.

This study aims to contribute to the existing literature by investigating those aspects recognised as drivers of SMEs' access to credit. The research, presented at different conferences – to the Institute for Small Business and Entrepreneurship (ISBE) in 2013 and to the International Council for Small Business (ICSB) and to the British Academy of Management (BAM) in 2014 – focuses on reviewing three

aspects to include ‘elements of SMEs’ access to lending’, ‘lending technologies’ and ‘local lending’.

To best probe different elements, the research attempts to explore this topic by developing and understanding four main areas:

I. Aspects hindering SMEs’ access to credit.
II. Elements constraining banks’ liquidity allocation to SMEs.
III. Banks’ application of approaches to lending to SMEs.
IV. Local lending effects on SMEs’ access to credit.

This research, therefore, aims to address issues of lending to SMEs and their ability to access credit, analysing elements possibly hampering liquidity allocation exercised by financial institutions.

The objective is to understand the nature of the phenomena by means of an exploration of social entities, to inductively discover embedded elements and encapsulate the essence of the research problem. The research, in fact, endeavours to inductively uncover embedded constraining elements to lending activities, which affect liquidity distribution to SMEs.

Centred on the overall aim of the research, areas of enquiry and gaps, the study attempts to address the following main questions:

**Figure 1: The research aim, objectives and questions**

| **The Research:**<br>'**Access to Credit for SMEs in a European Union Context: an SME Perspective and a Critical Review of Access to Credit'** | | | |
|---|---|---|---|
| **Research aim:**<br>Aspects recognised as drivers of SMEs' access to credit | | | |
| Aspects | Research areas (addressed objectives) | Gaps vs main procedure application | Questions * |
| Elements of SMEs' access to lending | ➢ Aspects hindering SMEs' access to credit.<br>➢ Elements constraining banks liquidity allocation to SMEs. | "Previous researchers had focused on assessing relationship quality between the banks and their customers but have neglected to determine the quality of relationship in the context of lending between the banks and their SME borrowing customers." (Retap et al., 2016, pp.408-409)<br><br>This suggests a "theory application void", whereby new and/or alternative understanding to add to the debate can be created (Muller-Block and Kranz, 2015, p.8)<br><br>Building on the idea and quality orientation considered by Retap et al. (2016), communication effectiveness appears relevant to uncover occurrences.<br>The communication aspect is considered relevant to channel information of different kinds (Mohr et al. 1996 and Retap et al. 2016)<br><br>Causality analysis to link the cause and the | RQ: How effective is communication between Banks and SMEs?<br><br>RQ: How effective is communication between European Institutions and SMEs?<br><br>RQ: What are the effects on SMEs' access to credit?<br><br>Continue on next page |

| | | | |
|---|---|---|---|
| | | outcome and/or influences and effects (Saldana, 2013) to determine occurrences. | |
| Lending technologies<br><br>Local lending | ➢ Banks' application of approaches to lending to SMEs.<br>➢ Local lending effects on SMEs' access to credit | Literature debates on whether SMEs might be more effectively served by applying relationship lending or transactional lending approaches to the evaluation process or whether their mutual integration might be a better solution (eg: Bartoli et al., 2013a; Fredriksson and Moro, 2014; Udell, 2008 and Levine, 2002)<br><br>The research is to provide further evidence to validate or contradict one of the two views. This is achieved by drawing on transactional analysis application and a causality analysis of the phenomena. | RQ: What are actors' thoughts about the two phenomenological realities?<br><br>RQ: What are the effects on SMEs' access to credit?<br><br>RQ: What is the most effective lending technology that can serve SMEs?<br><br>RQ: What is the lending technology that might best address actors' mutual satisfaction? |
| * Within this context, only the main questions for responding to the objectives and gaps are presented. Gaps full explanation and subordinated questions are formulated and fully outlined in the literature chapter (section 2.7) where gaps are presented. | | | |

## 1.4 Thesis focus

The gap indicated by Beck and Kunt (2006) and here reported was a basis of reflection for this research. Beck and Kunt, in fact (2006, p.2942), suggest that:

> 'Much more analysis, particularly using time-series variations, microeconomic data and country case studies, is needed to explore in more detail policies and financing tools that can help SMEs overcome financing constraints and expand their access to external finance. In this context, it seems especially relevant to focus on institutions that are important for SMEs' access to finance. Going along with institution-building, however, the

search has to be continued for financing tools that can work around institutional deficiencies'.

This research considers constraining aspects of lending which might affect SMEs' access to credit. Data analysis combines both qualitative and quantitative secondary data through different strategic approaches and coding methods.

The strategy is based on a single case study strategy with 'embedded units of analysis' (Yin, 2009) where Italy represents the 'critical' case. Comparative data drawn from two countries, the United Kingdom and Germany, when recognised relevant is at times applied to illustrate particular points to add validity and consistency to the study. A descriptive survey-type approach adds further evidence to secondary data centred on multiple sources of information and archival records.

The research falls in Italy due to different characteristics here described. The United Kingdom and Germany are also illustrated. An analytical evaluation based on official data reports recognises Italy as being highly representative in terms of SME segment, contribution and clustering. In fact, a comparative data enquiry on SME indicators of labour indices, production, turnover and value added, between the three selected countries, identifies Italy as the country where these economic factors are most representative. Italy, therefore, provides the main basis of this research. Italy's SME share is significant if compared to the United Kingdom and Germany and its contribution to employment, production, turnover and value added are relevant. A comparison of value attributes, to include the number of enterprises, number of employees, value added, production and turnover, drawn by official European Commission and Eurostat data reports, indicates a higher concentration of these dynamics in Italy.

Italy is the country with the highest SME segment share with a 99.9% level, against 99.7% for the United Kingdom and 99.5% for Germany. Italy is also reported as having the highest level of micro enterprises with a total share of 94.8%, followed by the United Kingdom with 88.9% value and Germany with a representation of 81.8%. In labour terms, in Italy, SMEs provide 79.6% employment if compared to 20.4% of larger entities. In the United Kingdom and

Germany, SMEs' labour levels are at 53.3% and 62.7% respectively. In comparable terms with the European Union levels, the three countries greatly contribute in terms of SME numbers and labour. Table 1 exemplifies this.

**Table 1: Comparison of countries by number of enterprises, number of employees**

| Country | Total Number SMEs % | Total Micro Businesses % | Employees % |
|---|---|---|---|
| European Union | 99.8 | 92.7 | 67.05 |
| Italy | **99.9** | 94.8 | 79.6 |
| United Kingdom | 99.7 | 88.9 | 53.3 |
| Germany | 99.5 | 83.8 | 62.7 |

Source: Eurostat, 2015a; The Edinburgh Group, 2012; Thibault, 2010, p.4; European Commission, 2014a; European Commission, 2014b; European Commission, 2014c

A comparative perspective, taking into account 'production value', 'value added' and 'turnover', drawn from the European statistics office (Eurostat, 2010), indicates that SMEs participate in these elements significantly. The Italian SMEs' contribution is particularly significant to these economic elements. In fact, Italy's values in millions Euro (mls) towards production, value added and turnover are 728 (mls), 191 (mls) and 723 (mls) respectively compared to 353 (mls), 142 (mls) and 269 (mls) for the United Kingdom and 627 (mls), 218 (mls) and 635 (mls) for Germany.

The 2011 Global Competitiveness Report (Browne and Geiger, 2011, p. 81) provides further detailed specification, based on 'value-added as a share of GDP', underlining those sectors that best contribute to economic wealth. Table 2 indicates the manufacturing sector as the main contributor, followed by services. Manufacturing is representative of 16% value-added as a share of GDP; second in ranking if compared to the United Kingdom and Germany, with 11% and 19% respectively (European Commission, 2012a; European Commission, 2013d; European Commission 2013e and Browne and Geiger, 2011, p.81). All three countries are characterised by clustering modes (Table 3). In this case, Italy is second ranked for number clusters with 158 units, compared to Germany with 269

units. The United Kingdom is third for number clusters with 58 units. In a European Union context, they are the most representative (European Cluster Observatory cited Life, 2009, pp.21-22).

**Table 2: Countries' sector contributing to economic wealth**

| Sector based value-added as a share (%) of GDP | | | | |
|---|---|---|---|---|
| Country/Economy | Agriculture | Manufacturing industry | Non-manufacturing industry | Services |
| United Kingdom | 1 | **11** | 10 | **78** |
| Italy | 2 | **16** | 9 | **73** |
| Germany | 1 | **19** | 7 | **73** |

Source: Abstract from Browne and Geiger, 2011, p.81

**Table 3: Clusters**

| SMEs Clusters | |
|---|---|
| **Country** | **Clusters (units)** |
| Italy | 158 |
| United Kingdom | 58 |
| Germany | 269 |

Source: Abstract from European Cluster Observatory cited Life, 2009, pp.21-22

Italy, as already indicated, therefore represents the 'critical case' which can be considered a 'typical case' or 'representative case' (Yin, 2009, pp.47-48). SMEs contribute substantially to the country's turnover, production, added value and labour force (European Commission, 2013c). In 2014, small entities accounted for 5.2 million businesses, contributing to employment levels by 48%. For the same period, medium-sized businesses accounted for 31 thousand businesses and contributed to employment by 3.1 million. Small and medium-sized entities produced turnovers of 1.2 trillion and 480 billion, respectively (White, 2014, pp.1-2). The industrial sector accounts for 40.5% (including manufacturing) of the whole Italian economic system (ISTAT, 2012, p.89). The system is based on established industrial districts, regulated by country legislation (legislation n.317/91 art.36 of 1991 revised 1999), aiming at favouring synergies within the territory and with a high number cluster development.

The topic of SMEs' access to credit is explored, as already stated, under three perspectives to probe different elements of SMEs' access to lending to address

the research questions. It is important to underline that although banks as liquidity suppliers are relevant to this research, the study does not attempt to analyse institutions' financial aspects. Nor does this study attempt to analyse financial institutions' perspectives on profit maximisation or sustainability. Rather, this study attempts to understand SMEs' perspectives on access to lending by combining both secondary multiple data and primary data. Another important aspect to be underlined is that although this research, at times, may include microeconomic data as part of the analytical process, it does not in any way attempt to study economic characteristics. Due to time constraints and limits over countries' reports and data publications and availability, the study locates the time gap for analytical purposes between the years 2008 and 2013. The survey was conducted between the years 2013 and 2015.

## 1.5 Contribution to research

Reuttner and Glass (2011, p.3) state that:

> "Financial systems play a vital role in economic development and, to be successful in the longer term, countries must take a holistic view by identifying and improving long-term factors that are crucial in their development".

At the same time, Steinberg and Bruno (2011, p.xi) address the importance of credit for economic development and state:

> "Given the vital role that credit plays in economic activity, it is important to monitor the availability of access to capital, not just for today, but also over the coming years".

These two statements have contributed to paving the way for this research direction. The research objective is to provide further understanding of the phenomena surrounding elements of SMEs' access to credit by addressing constraints that might hinder SMEs' financial access. This is achieved by studying the topic through a mix method application. The contribution to the research is to add theoretical and empirical evidence of SMEs' access to credit, by investigating aspects by extending existing and consolidated studies. Based on the analytical

review, there is an attempt to contribute to policy by suggesting possible practical solutions that might contribute to improving SMEs' access to credit.

The research enquiry contributes, therefore, to generating insights on four different levels. These are theory application, knowledge, practice and methodology (Muller-Block and Kranz, 2015) as illustrated by Figure 2.

**Figure 2: Research contribution**

| Contribution | Brief description |
|---|---|
| **Theory application** | Transactional Analysis theory underpins the study to generate new insights and contribute to knowledge. |
| **Knowledge** | Application of Transactional Analysis theory in the context of SMEs' access to credit.<br><br>Drawing on the Transactional Analysis models to define communication effectiveness and causality to underpin quality and value elements linked to SMEs' access to credit. This contributes by adding empirical evidence to knowledge.<br><br>Providing an understanding of communication effectiveness outlining the effects of uncovered elements on SMEs' access to credit.<br><br>Providing further evidence, through a different perspective, to understand whether SMEs might be more effectively served by applying one of the two types of lending technology (transactional lending or relationship lending) or by their mutual integration. The aim is to either validate or contradict one of the two views and add to the debate proposed in studies by Bartoli et al., (2013a), Fredriksson and Moro (2014), Udell (2008) and Levine (2002). In this context, to further add validity a comparative study is conducted thus contributing to build on cross-country data.<br>A script matrix as underlined by the transactional analysis theory delineating the action, aim, the means and the results (Stewart, 1996 and Steward and Joines, 2012) and a model of SMEs' access to credit are derived. |
| **Practice** | The study proposes possible policy solutions. |
| **Methodological** | A mixed method is applied to the study. However, the analysis of the study is primarily addressed by a qualitative methodology. This contributes to add perspectives and insights.<br><br>Extant research on SMEs' access to credit aspects typically apply quantitative type analytical procedures to their research (examples shown below) |

| **A few examples on type models used by extant literature on the topic under review** | **Scholar** |
|---|---|
| Probit model and Heckman regressions | Lee et al., 2015 |
| Tobit model (probit model) or Heckman selection model (linear regression) | Giannetti, 2012 |

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| | |
|---|---|
| Linear probability model | Bartoli et a.,l 2013b |
| Logit model | Jiménez and Saurina, 2004 and Comeig, 2015 |
| Econometric approach | Cenni et al., 2015 |
| Regression | Levine, 2002 |
| OLS model – ordinary least squares and panel model | Kirschenmann, 2016 |
| Continuation-ratio logit model | Voordeckers and Steijvers, 2006 |
| Exploratory Factor Analysis – EFA | Retap et al., 2016 |
| GLS (generalised list squares) estimator | Hassan et al., 2017 |
| Probit Model | Wang, 2016 and Bonini et al., 2016 and Ono and Uesugi, 2009 |
| Parsimonious model | Fredriksson and Moro, 2014 |
| Ordinary least squares (OLS) regressions | Moro et al., 2015 |

As already stated, the research focuses on three elements to address gaps. To reiterate, these are 'elements of SMEs' access to lending', 'lending technologies' and 'local lending'.

**Elements of SMEs' access to lending:** The focus on access to credit is ascribable to the importance placed on the ability of businesses to borrow and to the impact on the businesses' lifecycle (Ruis et al., 2009). Access to finance is cyclical, owing to elements brought about by economic and legislative changes which tend to affect banks' liquidity allocation. Bank lending is recognised as a focal element for SMEs' innovation and growth. Economic downturn and European Union requirements on capital and risk influence bank lending. Credit standards contracts as risk adversely affect bank availability and willingness to lend. The effects on SMEs' access to credit are ascribable to the asymmetry aspect attributable to the risk element. Risk and rigor application influence guarantees, collaterals, ratings, cost of credit and interest rate levels.

A Transactional Analysis application for the study guides it to determine the communication effectiveness (Mountains and Davidson, 2015 and Stewart and Joines, 2012) as elements of lending affect positions, reactions and decisions towards reality (Retap et al., 2016; Sharma and Patterson, 1999; Vos, 2009 and Gronroos, 20014). Heide and John (1992 cited in Yang et al., 2016) highlight that information asymmetry, depicted by the extant literature as a primary constraint on SMEs' access to credit, can have an effect on trust, communication, quality over opinions and outcomes.

There is an attempt, at European Union level, to facilitate access to credit through the ‘principle of debt and equity platforms’ (European Commission, 2011d, p.8). These platforms aim at specific projects and loans to enhance microfinance, loan guarantee facilities and loans. From a policy perspective, the study indicates the possibility of contributing to the existing European Union ‘platform principle’ by suggesting a scheme for lending through a comprehensive and holistic platform designed to provide facilities to SMEs’ access to credit.

**Lending technologies:** The aim is to highlight the application of lending technologies within a European Union context in the credit assessment process. A country’s selection is representative of different lending approaches ranging from relationship lending, transactional lending and mixed applications. Comparisons are between Italy, the United Kingdom and Germany.

The study clearly underlines the reasons behind banks’ application of different approaches to lending to SMEs’ credit assessment. The differences in the application of technologies to lending are attributable to bank strategy orientations. The risk factor is a relevant element for both the assessment process for credit and the application of different approaches to SME lending activities. The study indicates that a relationship lending approach favours SMEs’ access to credit. However, a complementary application of lending technologies magnifies the effects.

The study aims to identify communication patterns between actors, through the application of a transactional lending theory which is then associated with a causality analysis, to establish which lending technology might be more effective to serve SMEs. Value of information and of relationship, intended as correlations between actors, is interlinked to the trust element to generate quality (Berne, 2016b; Harris and Harris, 1995; Mountain Associates, no date and Mountain and Davidson, 2015; Molesworth et al., 2017; Stewart and Joines, 2012; Moro et al., 2012; Jayantee, 2006; Corey, 2016; Vysledky, 2015; Harris and Harris, 1995 ; Baas and Schrooten, 2006; Bester, 1987 in Ono and Uesugi, 2009; Jimènez and Saurina, 2004 and Voordeckers and Steijvers, 2006). Locating whether SMEs are better served by a combination of lending technologies adds to the extant research discourse.

On a practical level, the study leads to a suggestion for the creation of a new model aimed at promoting a sustainable instrument to facilitate the integration of the ‘risk factor’ in the credit assessment process.

**Local lending:** The aim is to establish how local lending effects SMEs in accessing financial resources related to the identified constraining factors. As already explained earlier in this chapter, Italy is selected as the critical case due to the economic structure, characterised by a high SME percentage level and a significant manufacturing sector. Italy is based on a well-developed and legally recognised industrial district or cluster infrastructure that favours regional synergies. Regions are characterised by a well-established cooperative banking system. The Italian financing system is also characterised by the CONFIDI presence, as local mutual loan guarantee societies act as intermediaries between SMEs and institutions in the credit assessment process.

The aim is to enquire into whether cooperative banks and CONFIDI as mutual guarantee institutions (MGI) can be effective as local banking entities to favour SMEs’ access to credit.

The research finds that local lending linked to a relationship lending technology can be effective in the distribution of capital financing to SMEs. Cooperative bank-type institutions coupled with MGIs, due to their local and national exposure, can assist local lending to favour SMEs’ ability to access credit. The importance of cooperative banks for SMEs’ access to credit finds support at European Union level where the European Association of Cooperative Banks (2011) stresses the significance of this type of institution for SMEs and economic development.

In addition to knowledge building, the study unfolds implications for practice, as exemplified by the proposition section in Chapter Five. In this respect, a possible suggestion for an innovation for the Italian cooperative banking system is proposed. The aim is to move towards risk sharing and cost reduction and to suggest microcredit as a niche market.

To offer readers a preliminary indication of this study, an outline of the structure is proposed in the next section.

## 1.6 The thesis structure

The research is organised into six chapters.

**Chapter One** is the introduction to this thesis and underlines the research aim, objectives and gaps and related principal questions. Furthermore, it focuses on the rationale for the study being proposed and outlines the thesis contribution.

**Chapter Two** highlights how economic development and growth can generate wealth and growth and the relevance of financial access. It underlines the emphasis that the European Union is placing on SMEs' access to credit. It further outlines the literature review in the context of access to credit. A critical review on the three aspects or embedded units of analysis highlights key concepts to focus on in terms of the analysis of elements of lending, approaches for lending and local lending. A theoretical lens underpinning the study is defined. The theoretical lens is represented by a Transactional Analysis theory which is to guide the study. A conceptual framework is drawn and gaps underlined. Questions are drawn on the basis of the presented gaps.

**Chapter Three** delineates the research methodology and strategy. Here the philosophical assumption and the epistemological approach are underpinned. The research purpose, methods and strategies related to the research are underlined. The basis for the research data analysis is highlighted.

**Chapter Four** presents empirical data results. A mixed method is applied through a survey collection and empirical results from recognised European and national entities. A Transactional Analysis theory represents the basis for analysing data and interpreting the results.

**Chapter Five** discusses findings in the light of the considered extant research on uncovered elements to draw inferences and to offer a distinctive perspective on SMEs' access to credit. A script matrix, as underlined by the transactional analysis theory delineating the action, aim, the means and the results (Stewart, 1996 and Steward and Joines, 2012) and a model of SMEs' access to credit are derived. In the light of the research findings and drawn inferences, possible solutions to address identified gaps related to SMEs' access to credit are proposed. The

propositions are to provide schemes that might contribute to addressing those recognised critical constraining elements for SMEs' access to credit in an attempt to facilitate liquidity distribution.

**Chapter Six** provides a summary of key findings and the research contributions. The chapter further provides an outline of the problems and flaws that occurred during the study and proposes further areas of scholarship.

# Chapter 2: Literature Review

## 2.1 Introduction

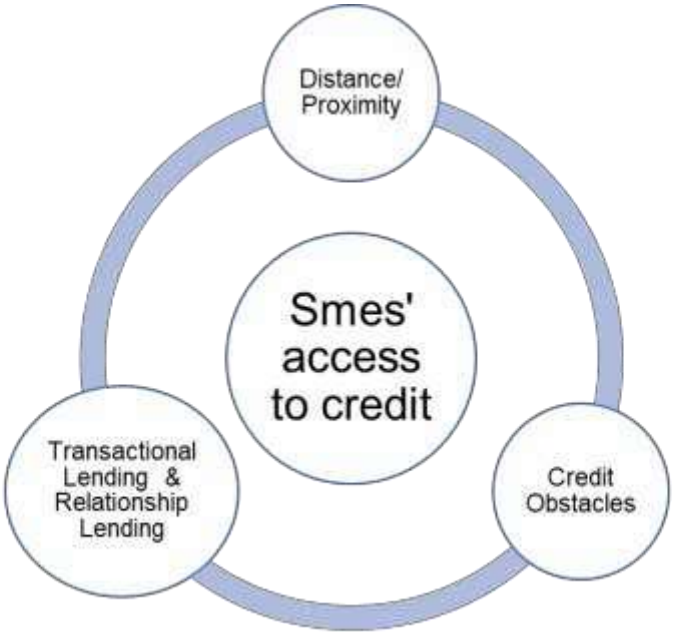
The main reason behind the decision to concentrate on the SME segment of the market is the relevance that those types of businesses have for the economic wealth of a country.

The aim of this chapter is to provide, through a critical review of the literature on the topic, a focus on those obstacles that might impair banks' distribution of lending by drawing on three elements. The literature review draws, therefore, on specific aspects. The area of enquiry to which the review of the literature is orientated falls on credit obstacles, approaches to lending and the element of distance focusing on local lending between the bank and the firm as intertwining aspects of SMEs' access to credit (see Figure 3). An attempt is made to review the extent to which these elements might be representative of constraining or favouring aspects of SMEs' access to credit within the European Union.

It is relevant at this stage to underline that the review of the literature is not aimed at addressing structural, economic or financial market aspects such as interest rate level decisions, measurements or fluctuations nor the impact of these type of elements for banking institutions or SMEs. This review on the debate within the academic discourse concentrates on considered elements to present a perspective of the main concepts thus providing the basis for this research enquiry.

Following the review of the literature, a theoretical position to guide the research is illustrated and a conceptual framework is drawn. The conceptual framework is defined by drawing on main concepts and by the application of the theoretical lens. The gaps and the contribution to knowledge are then derived on and drawn.

**Figure 3: Elements to be reviewed**




This chapter is divided into eight sections and addresses three elements of SME lending activities. Section One introduces the argument. Section Two considers a review of elements of SMEs' access to lending. This section includes a subsection to illustrate the economic growth and economic development linked to SMEs' financing as considered a relevant feature to the considered discourse. The section, for completeness of information, further offers a brief outlook on the European Union steps to improve SMEs' access to credit. There follows an overview on elements and obstacles characterising SMEs' access to credit. Section Three offers a perspective on approaches to lending, with an emphasis on the debates surrounding a relationship lending approach as a favoured option for credit allocation. It further illustrates aspects ascribable to customer value. Section Four offers a perspective on the element of proximity, enhanced by an industrial district/clustering mode, and the linkage to local lending. Section Five outlines the explanation of Transactional Analysis as the theoretical lens which is to guide the research emphasising its principles, notions and models. Section Six delineates the conceptual framework. Gaps are defined and questions are formulated to

follow the presentation of the conceptual framework in the seventh section. The final section provides a chapter summary.

## 2.2 Review of elements of SMEs' access to lending

The importance of financial access for SMEs is amply addressed by both extant literature and research and has been the subject of discussion among policy makers. "Financing is necessary to help SMEs set up and expand their operations, develop new products, and invest in new staff or production facilities" (Ruis et al., 2009, p.13). Sources of finance are relevant for those innovative businesses which require considerable sources of liquidity to develop products (Organisation for Economic Co-operation and Development, 2006). Due to SMEs' sizeable concentration, accounting for a 99% share of all businesses within the European Union area, their growth and development are important elements in creating employment and wealth and are, therefore, relevant for a sustainable economy (e.g. Barnier, 2012, p.4 and Wymenga et al., 2012, p.15). The subsection that follows provides an overview on the relevance that economic growth has on development, how these elements are interlinked to lending distribution and SMEs' contributions to the economy.

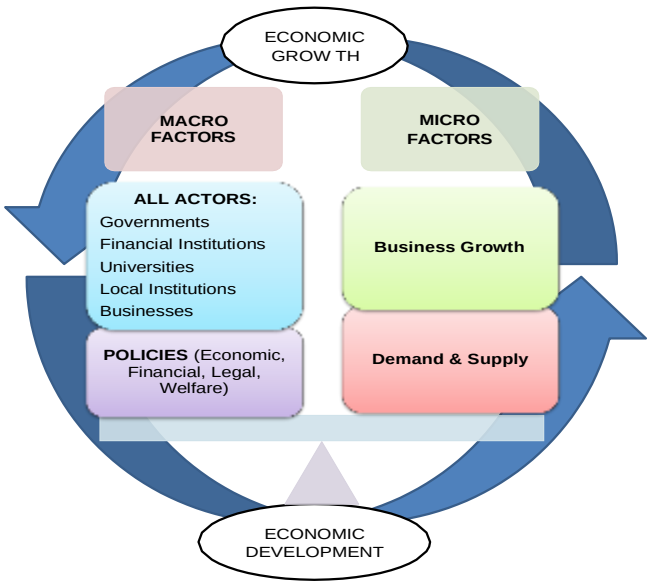
### 2.2.1 Economic growth and economic development

It is relevant in the context of this research to briefly review some fundamental concepts to underline embedded aspects of economic and development growth which are interrelated exogenous elements in the question of SME financing. The economic system growth or size of an economy is measured by the Gross Domestic Product (GDP), expressed as 'total production or output' and 'earnings per-capita' (Hollensen, 2007 and Fiore, 2003). Productivity is, in fact, an indicative factor for performance level and, therefore, a determinant of growth rate (Sala-i-Martin et al., 2010).

Essentially, economic growth and economic development are representative of two different concepts. Economic growth is quantitative in nature and effectively measures the material wealth of a country. In contrast, economic development is a qualitative means of measuring the well-being effects of policies and economic

decisions. The two concepts are interlinked, as one affects the other's outcome and effectiveness. The elements that characterise the two aspects are able to influence growth and wealth levels. A balance between macro and micro aspects as drivers of economic development and growth is indicated in Figure 4. Macro factors include all of the different actors that participate in economic activities. These are governments, financial institutions, universities, local institutions and businesses. Policies provide economic, financial, legal and welfare directives to guide actors in making strategic and economic decisions. Micro factors are represented by demand and supply to generate capital like employment, disposable income, production, and investment in business growth. Production is a relevant element for economic growth and demands for 'produced capital', 'human capital, 'natural capital' and social capital' (Everett et al., 2010; Everett et al., 2010, p.28 and Reuttner and Glass, 2011). In this respect, both exogenous and endogenous elements attributable to demand and supply and to business innovation and growth are considered necessary preconditions to economic growth. In fact, "economic growth remains essential to support continued improvements in factors that affect people's wellbeing, from health and employment to education and quality of life, and to help the government deliver on a range of policy objectives – economic, social and environmental" (Everett et al., 2010, p.27).

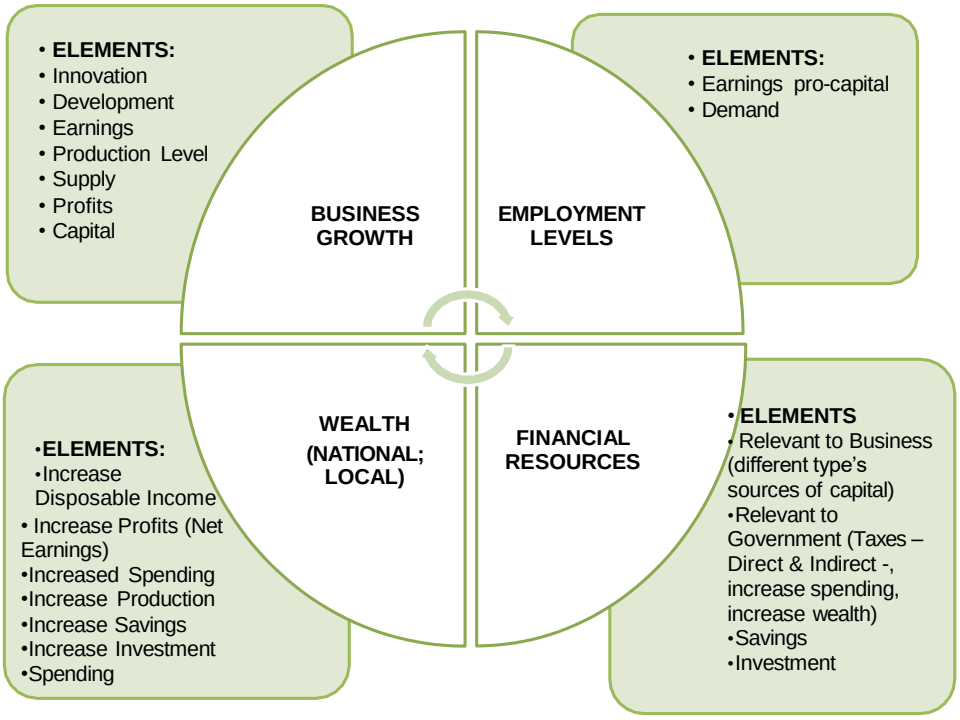
**Figure 4: Elements of economic development and economic growth cycle**



Indeed, as best exemplified in Figure 5, long-term development strategy contributes to wealth as businesses might prosper through increases in production. In fact, production is the result of demand and consumption conditions enacted by disposable income levels. Long-term development and production are the result of wealth per capita originating from employment levels, capital resources and welfare policies. Furthermore, disposable income and employment levels increase savings and taxable income in terms of both direct and indirect taxation, which, in turn, have an effect on spending and on welfare policies (see Reuttner and Glass, 2011 and Everett et al., 2010).

A limiting factor that affects economic development is ascribable to the availability of resources. Financial access, including both commercial and retail access to different forms of capital, represents one of the seven ‘pillars’ of financial development and is deemed relevant to economic growth contribution (Reuttner and Glass, 2011). To distinguish, commercial access refers to loan-type finance, whilst retail access includes credit facilities and microfinance lending activities (Reuttner and Glass, 2011). Financial development is represented by the synergic action of all of the actors to develop an effective system able to deliver capital and services towards economic development and growth (see Steinberg; Bruno, 2011 and Schwab, 2011).

**Figure 5: Interlinking aspects of economic development and economic growth**




Source: Sala-i-Marti et al., 2010; Everett et al., 2010; Schwab, 2011; Reuttner and Glass, 2011 and Steinberg and Bruno, 2011

Two aspects which can negatively affect lending distribution are ascribable to the concepts of asymmetry and opacity. In the case of asymmetry, there is an imbalance between the 'principal and the agent'. This is linked to the aspect of knowledge and objectives, which might affect the bargaining power and, therefore, the qualitative value of services provided. The concept of opacity is associated with the asymmetry aspect. The opacity element results from the inability to provide quantitative data such as statutory statements and external market or agencies' ratings of evaluation criteria towards credit assessment. This can effectively create an imbalance of information as businesses can retain strategic or meaningful information, thus creating asymmetry. The link between opacity and asymmetry adversely affects SMEs' access to credit as financial institutions are not able to make an informal decision triggering the 'adverse selection' (see Roberts, 2015 and Detragianche et al., 2000). Effectively, information asymmetry

can be exercised by both the ‘principal and the agent’ (Gallouj, 1997; Bongini et al., 2009). These elements represent a constraint on SMEs’ liquidity distribution and their ability to access credit (see Bongini et al., 2009).

The relevance that access to credit assumes for SMEs is an issue highlighted not only at European Union level but also by the G-20 (Reuttner and Glass, 2011, p.10). Furthermore, it is suggested that economic growth and development should be placed at the forefront of government agendas by developing those core competences that may facilitate ‘competition’ (Schwab, 2010 and Sala-I-Martin et al., 2010). Competition is, in fact, determined by the aggregation of ‘actors’, as macro elements, and ‘factors’, as micro aspects, which can facilitate a national and local growth of both production and investment (Sala-I-Martin et al., 2013). Within this context, SMEs play a relevant role in local development and growth within the European Union (Reuttner and Glass, 2011). They can contribute effectively to labour levels and to the wealth growth of a country. They were further reported in 2010 to participate in the European Union Gross Domestic Product by 58%. In terms of share of SMEs’ population to percentage employment level, the sectors that contribute most to disposable income are the manufacturing sector, construction and the distributive trades (Table 4). In numerical terms, SMEs represent 99% of businesses in the European Union area. Of these, 92% are micro-enterprises. Furthermore, SMEs are reported to have contributed 80% to new labour levels between 2006 and 2011 and just over 67% of total employment in 2012. They contribute more than half of the value added: a total percentage value of 57.5% in 2012. In terms of turnover, SMEs provided 56.2% of output in 2012 compared to 43.98% for large enterprises. Table 5 exemplifies this (European Commission, 2011f; European Commission; 2011g, p.2; European Commission, 2011d, p.1; Commission of the European Communities, 2008a; The Edinburgh Group, 2012, p.7 and Eurostat, 2015).

**Table 4: Sector segmentation by percentage value to share of employment**

| | Share of SME enterprise population | Share of SME employment |
|---|---|---|
| **Distributive trades** | **28,6** | **26,3** |
| **Manufacturing** | **9,5** | **20,1** |
| **Construction** | **15,2** | **13,3** |
| **Professional, scientific & technical Activities** | 17,0 | 10,1 |
| **Accommodation & food services** | 8,2 | 9,3 |
| **Administrative & support services** | 5,6 | 7,0 |
| **Transportation & storage** | 5,2 | 6,0 |
| **Information & communication** | 4,0 | 3,7 |
| **Real estate activities** | 5,2 | 2,5 |
| **Water supply, sewage, waste & recycling** | 0,2 | 0,8 |
| **Repair: computers, personal & household goods** | 0,9 | 0,3 |
| **Network energy supply** | 0,2 | 0,3 |
| **Mining & quarrying** | 0,1 | 0,2 |

Source: Eurostat, 2015b

**Table 5: Micro data and SMEs' contribution**

| Data – 2012 | | | SMEs' Contribution |
|---|---|---|---|
| Total Number of Enterprises | 22,346,729* | 100% | |
| Number - Large | 43,590 | 0.2% | |
| Number - Medium Size* | 223,585 | 1.0% | |
| Number - Small Size* | 1,361,935 | 6.1% | |
| Number - Micro* | 20,717,621 | 92.7% | Total 99.8 |
| Total Value Added | 6,184,825.1 | 100% | |
| Value Added – Large | 2,627,377.4 | 42.5% | |
| Value Added – Medium Size | 1,128,743.1 | 18.3% | |
| Value Added – Small Size | 1,128,704.6 | 18.2% | |
| Value Added – Micro* | 1,300,000.0 | 21.0% | Total 57.5 |
| Total Employment | 1,337,673.0 | 100% | |
| Employment – Large | 440,778.0 | 32.95% | |
| Employment – Medium Size | 229,668.0 | 17.17% | |
| Employment – Small Size | 277,227.0 | 20.72% | |
| Employment – Micro* | 390,000.0 | 29.16% | Total 67.05 |
| Production | | | |
| Total Turnover | 26,074,073.1 | 100% | |
| Turnover – Large | 11,466,255.10 | 43.98% | |
| Turnover – Medium Size | 5,267,753.10 | 20.20% | |
| Turnover – Small Size* | 6,026,721.0 | 23.11% | |
| Turnover – Micro* | 3,313,343.9 | 12.71% | Total 56.02 |
| GDP Total – UE 28 (mls Euro) | 13,428,968.2 | | 58% (in 2010) |

* Number of Enterprises: By size based on headcount not on turnover or balance sheet value (Variance to total number enterprises = 2)
* Turnover Enterprises: Values are approximate
* Value Added: Estimated Value
* Employment: Value is approximate

Source: Source: Eurostat, 2015a; The Edinburgh Group, 2012 and Thibault, 2010, p.4

In the European Union, there are 1222 clusters systems, where different elements such as 'size', 'specialisation', 'productivity' and 'dynamism' are aggregated to create and allocate resources for development and growth (Ketels and Protsiv, 2014, p.12). As indicated in the introductory chapter, Italy and Germany are the most represented, with 158 and 269 clusters, respectively. France and Spain are third and fourth in ranking. In the United Kingdom, 58 clusters are registered, corresponding to 4.2% of the total European Union. Table 6 highlights data related

to clusters within the European Union (European Cluster Observatory cited Life, 2009, pp.21-22).

**Table 6: European Union clusters**

| Clusters by Country | Number of Clusters | Clusters in % terms |
|---|---|---|
| Italy | 158 | 11.4 |
| United Kingdom | 58 | 4.2 |
| Germany | 269 | 19.5 |
| Austria | 34 | 2.5 |
| Belgium | 19 | 1.4 |
| Bulgaria | 33 | 2.4 |
| Cyprus | 2 | 0.1 |
| Denmark | 18 | 1.3 |
| Estonia | 6 | 0.4 |
| Finland | 16 | 1.2 |
| France | 103 | 7.5 |
| Greece | 18 | 1.3 |
| Ireland | 7 | 0.5 |
| Latvia | 3 | 0.2 |
| Lithuania | 9 | 0.7 |
| Luxembourg | 1 | 0.1 |
| Malta | 4 | 0.3 |
| Holland | 29 | 2.1 |
| Poland | 97 | 7 |
| Czechoslovakia | 61 | 4.4 |
| Romania | 75 | 5.4 |
| Slovakia | 23 | 1.7 |
| Slovenia | 8 | 0.6 |
| Spain | 104 | 7.5 |
| Sweden | 27 | 2 |
| Hungary | 40 | 2.9 |
| **Total** | **1222** | |

Source: European Cluster Observatory cited Life, 2009, pp.21-22

Following the discourse on economic growth and development, for completeness, it is relevant to provide a brief illustration on the moves that the European Union has taken in an attempt to favour SMEs' access to credit.

### 2.2.2 The European Union's steps to improve SMEs' access to credit

In the context of this research, for completeness, it is relevant to briefly outline the steps undertaken by the European Union. The attempts by the European Union to improve SMEs' access to sources of capital and the importance of this in their lifecycles calls for attention. In fact, the European Union has placed great emphasis on the importance of growth and development for SMEs. Furthermore, a survey conducted by the European Central Bank (European Central Bank, 2011b) indicates that 16% of SMEs consider access to credit as a core issue as institutions decrease their finance allocation.

The most relevant measures are the 'Small Business Act' and the 'Research, innovation and competitive package' (see Commission of the European Communities, 2008a; European Commission, 2011e and European Commission, 2011e). The Small Business Act – SBA 2008 revised 2011 (Commission of the European Communities 2008a and European Commission, 2011e) enlists 10 principles with a view to facilitating the development of SMEs within the European Union area. Within this act, principle VI is orientated to "create the condition to facilitate SMEs' access to credit" by steering member states towards the development of systems and processes to enable those types of businesses to access sources of finance. It is stated that "The EU and Member States should facilitate SMEs' access to finance, in particular to risk capital, micro-credit and mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions" (Commission of the European Communities, 2008a, p.11).

The main principle, for the purpose of this research, is, in fact, 'principle VI' which exemplifies the importance of facilitating 'SMEs' access to finance' (European Commission, 2011e and Commission of the European Communities, 2008a). The 'Research, innovation and competitive package' as an analytical document, evidencing the importance of credit access for SMEs' ability to grow, and underlining an action plan with the objective of creating programmes able to sustain SMEs, is also relevant (European Commission, 2011f). The intention of the European Union is to lend optimisation by promoting efforts throughout the European area to cover the whole lifecycle, which includes the 'early stage', the

‘growth stage’ and the ‘development stage’. The document provides an emphasis on the opacity issue, which is recognised as an element of constraint, and underlines an action plan with the objective of creating programmes able to sustain SMEs (European Commission, 2011f).

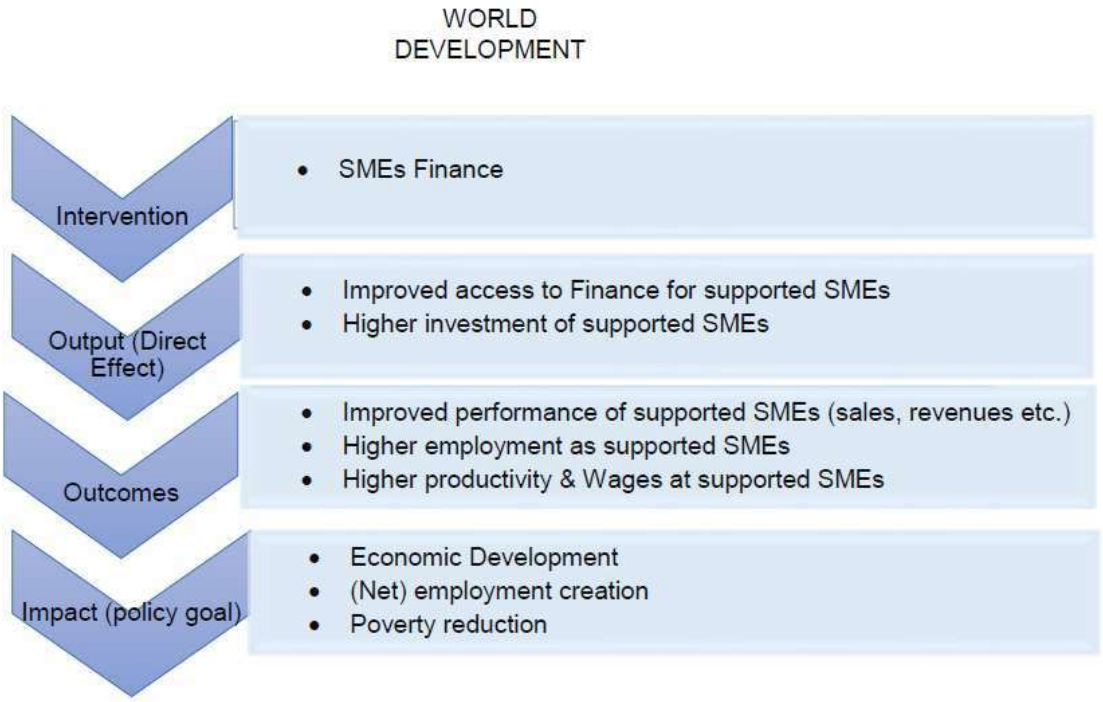
The ‘principle of debt and equity platforms’ is the recognition of the importance that financial access assumes in the context of SMEs’ growth and innovation. The introduction of the ‘COSME’ programme of lending (see European Commission, 2011d) is a forward step from a conceptual standpoint to tangible implementation, aiming at facilitating SMEs’ liquidity access (see European Commission, 2011d, p.8). The measures introduced through ‘platforms’ are time-horizon orientated, to end in 2020, and operate on the basis of subsidised specific projects or restricted aggregate loan provisions. The objective of these financial capital resources is to reduce institutions’ exposure to risk and to encourage lending to SMEs. Funding is provided by the European Commission and the European Investment Bank and managed by the European Investment Fund though the auxiliary of national financial institutions or intermediaries adhering to the project (European Commission, 2011d). This is a step from a conceptual standpoint to tangible implementation, aimed at facilitating SMEs’ liquidity access (see European Commission, 2011d, p.8 and European Commission, 2011f). However, there is no evidence to suggest a long-standing framework strategy to facilitate loan provisions to SMEs (see European Commission, 2011d).

Another measure introduced by the European Union is the ‘European Progress Microfinance Facility’ launched in 2010 with the specific purpose of assisting small businesses to set up and develop (European Commission, 2013a). Microfinance allocation, to a maximum of Euro 25,000, is to be provided by financial institutions which act as intermediaries to conform to the European Investment Fund (EIF) led by the European Central Bank (ECB). It is to be highlighted that the scheme provides guaranteed support in case of defaults or non-repayments, thus offering credit risk-sharing support to institutions.

To reiterate previous arguments, the extent to which firms’ access to finance can restrict national and local development is relevant. Indeed, financial access, both

in terms of commercial and retail, is significant for business sustainability. Ryan et al. (2014) suggest that different sources of liquidity within the European context might provide a better environment for SMEs' access to financing. Kersten et al. (2017) propose a "simplified theory of change" replicated by Figure 6 to illustrate the effect of financial programs on SMEs. Financial access aims to provide liquidity to support SMEs. It is depicted as a necessary step towards employment, productivity, growth and development both for the firms and in economic terms.

**Figure 6: Kersten et al., 2017 p.332 – simplified theory of change of SME finance programs**




The following disquisition is to illustrate more comprehensively the elements recognised as obstacles to SMEs' access to credit.

### 2.2.3 An overview of recognised elements and obstacles characterising SMEs' access to credit

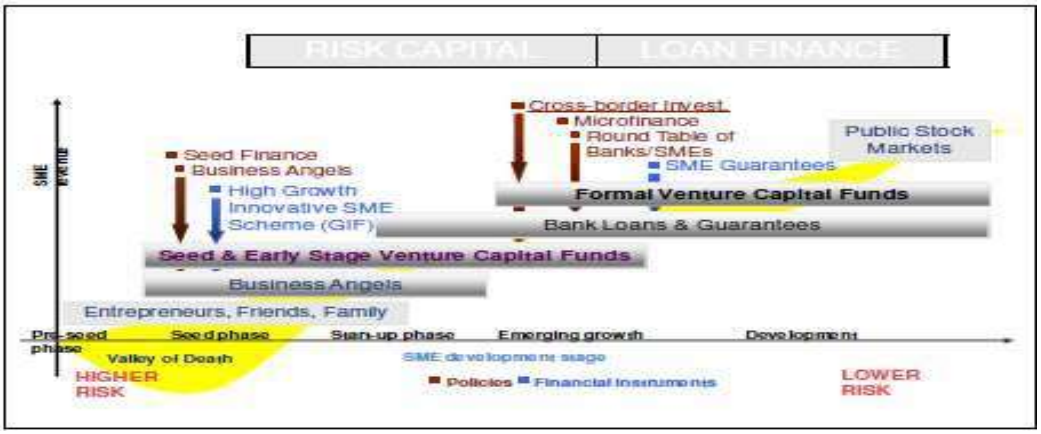
The ability of firms to grow is dependent on available finance to develop projects; however, SMEs encounter difficulties in accessing credit. Beck et al. (2005, p.138) indicate that financial access is one of the obstacles that impacts on firms' ability

to produce and generate profits. Access to credit further affects SMEs' ability to grow (Wang, 2016). On the basis of a worldwide survey using data gathered from 54 countries, on a sample size of 4000 firms, Beck et al. (2005) demonstrate that a correlation exists between 'firm growth' and financial obstacles. Furthermore, it is reported that banks' liquidity inadequacy is one of the most significant elements of financial constraints having a negative impact on small firms' growth (Beck et al., 2005, pp.141-142, 146, 153, 161). A study conducted by Ayyagari et al. (2008, p.486) went a step further, indicating that financial obstacles are not only an important constraining factor, but they also represent the most relevant hindering element. Financial obstacles are reported to be elements which have two-tier effects, one related to the inability of SMEs to grow due to a constraint on their credit access and the other functioning as a market entry barrier with consequential negative effects on innovation and development (Beck and Demirguc-Kunt, 2006).

Financial support is considered an important element in the enhancement of the SME market segment. The European Commission, however, maintains a critical position in relation to SMEs' ability to develop effectively due to possible difficulties in accessing credit. Within this context, the European Commission (2005, p.5) argues, 'However, they are often confronted with market imperfections, SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase.' The importance of access to finance, throughout the four stages of the lifecycle in which development and risk are interlinked, assumes relevance in the context of SMEs (see Ruis et al., 2009). Access to finance is described as cyclical and tends to have an impact on the 'business cycle' itself, principally due to economic changes which affect banks' credit standards. The cyclical element to finance distribution is seen as being related to economic evolution, which affects liquidity distribution (Ruis et al., 2009). The ability of businesses to borrow influences the business cycle, as activities towards development and growth might be impaired (see Ruis et al., 2009). SMEs' 'lifecycle', in relation to lending activities and risk, is described by Ruis et al. (2009). As illustrated in Figure 7, Ruis et al. (2009) place both 'bank loans and guarantees' and 'venture capital' in the emerging and development stages, where the risk factor is scaled from medium to low, whilst other sources of finance fall in the 'seed', 'start-up' and 'early' stages of

the business, where risk is prominent. SMEs tend to rely on different sources of liquidity, represented by venture capital, business angels and bank loans. For the purpose of this study, the emphasis is placed on the availability of loans from commercial banks, being a highly representative constrained source of liquidity. Particularly, the results of a survey applied in a study of SMEs in Scotland indicate that constraints in accessing loan-type credit through commercial banks are seemingly reported to be concentrated on young firms, new market entries and on manufacturing businesses (see Deakins et al., 2008).

**Figure 7: Finance sources on 'SMEs' lifecycle' vs. risk factor**




Source: DG Enterprise, 2007 cited in Ruis et al., 2009, p.21

Ingredients like competition, data advantage, solvency and collateral are deterministic in terms of the 'bargaining power' of an application and to define the negotiation phase between banks and SMEs (Uchida et al., 2012 cited in Bonini et al., 2016). According to literature there are two opposed orientations to loan distribution. These are 'market power hypothesis' and the 'information hypothesis'.

According to Ryan et al.'s (2014) study, the market power hypothesis has a negative effect on lending constraints. In fact, this orientation to lending leads to higher interest rates, higher collateral requirement and lower liquidity allocation. It is reported that market power increases due to opaque SME reliance on lending. They further highlight that banks' orientations towards a bank-based system, where hard type information is sought, aggravate the market power position. Carbò-Valverde et al.'s (2006) results indicate that market power has a negative impact on credit constraints, therefore, putting them in line with Ryan et al.'s

(2014) conclusion. It is reported, however, that high competition has a negative effect on market power and positive effects on credit constraints like cost, interest rates and collateral (Fungacova et al., 2017; Ryan et al., 2014 and Hainz et al., 2013).

Petersen and Rayan (1995) argue that the information hypothesis applies to opaque firms. In this context, banks are more orientated towards the application of a relationship lending type approach to lending. This, in fact, is a recognised strategy to reduce asymmetry in information. Banks are, therefore, prone to reduce interest rates as informational rent is produced over time. Other obstacles to credit are also positively addressed (Petersen and Rajan, 1995; Beck et al., 2004 cited in Mac an Bhaird et al., 2016; Love and Martinez Peria, 2012 cited in Mac an Bhaird et al., 2016 and Carbò-Valverde et al., 2009). However, Petersen and Rajan (1995) also underline that, in the case of competitive markets, the application of relationship lending technology in the assessment process for SMEs' access to lending is reduced. Increase in competition can, therefore, lead to increases in credit constraints, like interest rates and collateral, viewed by banks as surrogate to screening and monitoring activities (Petersen and Rajan, 1995; Fungacova et al., 2017 and Duarte et al., 2017 and Manove et al., 2001). Boot (2000) offers a different view by highlighting that collateral might be requested as an addition to screening and monitoring tasks. This opinion is shared by Onu and Uesugi (2009). The view on heightened credit constraints and exacerbated credit allocation, brought by competition, is shared by Beck et al. (2004 cited in Mac an Bhaird et al., 2016), Love and Martinez Perria (2012 cited in Mac an Bhaird et al., 2016) and Dell'Ariccia and Marquez, 2006. Petersen and Rajan (1995) assume that credit is favoured where bank competition is reduced as the application to soft information for the lending assessment is more easily applied. This view is shared by Fungacova et al. (2017) who underline how this strategy application can address the asymmetry issue. Mercieca et al. (2009) are of a different view by proposing that competition promotes relationship lending application to credit evaluation and, therefore, favours lending.

As the literature tends to suggest, young and new market entries are adversely affected by the inability to provide past financial records and creditworthiness records together with the soundness of management and business plans. In the

case of manufacturing businesses, difficulties in obtaining credit might be the result of the nature of the business itself. In fact, the propensity to involve research and development activities in new products or activity expansion is deterministic. (see Deakins et al., 2008) Further evidence of financial constraint for SMEs is provided by a study conducted by Coluzzi et al. (2009), who evidence that age and size are probability factors with a consistent impact on the manufacturing and construction sectors. A subsequent study through regression analysis provided by Ferrando and Griesshaber (2011) confirms age of firms as a relevant factor, as businesses need to provide past records to confirm their financial solidity. This factor is, therefore, recognised as deterministic. Their analysis further adds that firm type, in terms of ownership, is another element to be considered (Ferrando and Griesshaber, 2011). Arraiz et al. (2014) endorse the notion that size and age are factors that negatively affect banks' disposition to lend. The concept is further corroborated by Kuntchev et al.'s (2013) study. Age and size are not, however, the only factors constraining SMEs' access to credit. In fact, innovative businesses face difficulties due to the uncertainty linked to project development and the difficulty of allocating value both to projects and to their 'business model' (Atzeni and Piga, 2007 in Cenni et al., 2015 and Lee et al., 2015, p.372). However, both Lee et al.'s (2015) and Pellegrina et al.'s (2017) studies find that although innovative businesses face difficulties in terms of credit demand, their level of conceded credit is comparable to non-innovative firms.

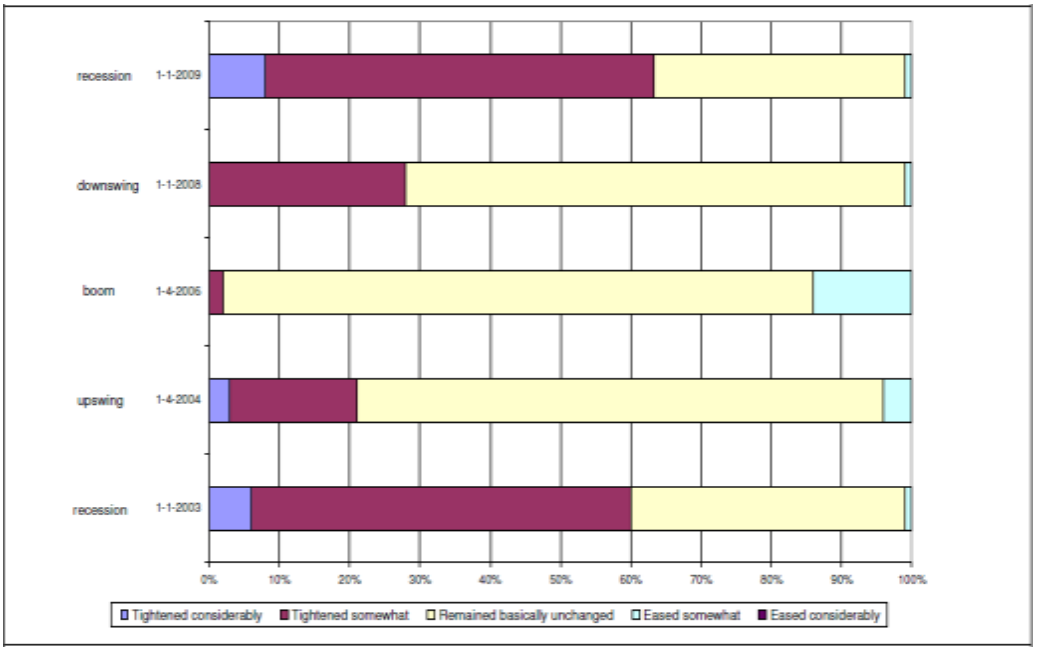
Hyytinen and Pajarinen (2008), in their study, conclude that the issue of 'opaqueness' can be an element contributing to the difficulties that SMEs, particularly in the case of micro-businesses, experience during the process linked to accessing credit. Beck and Demirguc-Kunt (2006, p. 2936) are inclined to suggest that 'In a world with fixed transaction costs and information asymmetries, small firms with demand for smaller loans face higher transaction costs and face higher risk premiums since they are typically more opaque and have less collateral to offer'.

From the point of view of the credit institution, the described aspects point towards an increase in the risk element for lending, thus creating the possibility of viable SMEs being excluded from sources of finance and giving rise to the 'debt finance gap' or 'financing gap' (see Deakins et al., 2008). Ruis et al. (2009) highlight the

link between the ‘economic cycle’ and lending activities for SMEs, as illustrated by a reproduction of the proposed analysis in Figure 8. By analysing the surveys conducted by the European Central Bank on ‘bank lending’ to include two recessive periods, 2003 and 2009, their results indicate that there is a negative effect on lending by institutions during these periods due to a diminished propensity to supply funds. This is, by the authors’ acknowledgment, further supported by a survey conducted by the NFIB (2008), at US level, which emphasises that conditions for lending are adversely affected during periods of economic crisis. The main effects are reported to be on interest rates and the number of loans being granted (Ruis et al., 2009, pp. 28-29, 31 and NFIB, 2008).

Interest rates, which are reported to be higher in the case of SMEs, have undergone a rise following the financial crisis. The interest rate increase is accompanied by a strengthening of collateral requirements and other lending costs. It is outlined that collateral is requested by banks to reduce the risk factor and to offer favourable conditions for lending. Collaterals, interest rates and costs of credit are all constraining elements which can impair SMEs’ access to credit (European Banking Authority, 2016; Beck and Demirguc-Kunt, 2006; Duarte et al., 2017 and Beck and de la Torre, 2007). Of a different view are Onu and Uesugi (2009) underlining how the risk factor does not influence collateral requirements. Duarte et al. (2017) state the importance of information sharing between institutions as it could lead to two advantages. These are a reduction in collateral application and addressing the information asymmetry problem. Lee et al, (2015), referring to innovative businesses, highlight how projects or project components as intangible assets and future possible profits are difficult to value. In these cases, collateralisation is unfavourable as a pledge against lending requirements (Lee et al., 2015). Wang (2016) indicates that a lack of trust is ascribable to the absence of ‘credit guarantee institutions’ and can induce excessive collateral requirements.

**Figure 8: 'Bank credits standards application to businesses – loans or credit lines'**




Source: Ruis et al., 2009, p.29

The embedded element, identified as a constraining factor for SMEs' credit access, is identified in the firm's ability to provide viable information such as creditworthiness and management quality. SMEs are reported to be more easily credit constrained (European Banking Authority, 2016 and Kuntchev et al., 2013). Therefore, the elements of constraints, on SMEs' access to finance, are reported to be the provision of collateral, especially in the case of young firms, and the 'lack of track record, inadequate security, breach of a threshold limit, credit rating outside an acceptable range' (see Ruis et al., 2009, p.17 and Organisation for Economic Co-operation and Development, 2006). In fact, elements negatively affecting SMEs' access to credit is data limitation not only from the point of view of 'track records' but also in terms of the absence of 'liquid market' as those types of business are not listed. The scarcity of what is considered by the banking system to be credible data, generates information asymmetries and leads to the adverse selection problem. Collateral can ease the adverse selection favouring SMEs' access to credit (European Banking Authority, 2016; Berger et al., 2009; Mac an Bhaird et al., 2016; Bass and Schrooten, 2006; Beck and Demirguc-Kunt, 2006; Berger and Udell, 1998 and Kirschenmann, 2016). Duarte et al. (2017) indicate

that a reduction of the asymmetry problem can result in reduced collateral requirement. All the above listed elements have an impact on banks' risk assessment towards loan applications with a possible adverse effect on interest rates, creating difficulties for SMEs in borrowing due to excessive costs linked to lending (see Organisation for Economic Co-operation and Development, 2006). Two factors are deterministic of risk and influence SMEs' ability to grow as risk is considered an obstacle to lending access (Wang, 2016 and European Banking Authority, 2016). The first is the 'idiosyncratic' aspect where risk is attributable to the SME's internal characteristics that can signal a business' potential default. The second aspect is 'systemic' as risk stems from economic and development elements and from credit costs which might impact on lending (Wang, 2016 and European Banking Authority, 2016 and Lee et al., 2015).

Obstacles, therefore, may hamper SMEs' financing. The application of lending approaches to the evaluation process becomes, therefore, relevant in understanding what elements are affected either positively or negatively. The next section provides a review of lending technologies with an emphasis on relationship lending considered a favourable approach to SMEs' access to credit.

## 2.3 Approaches to lending

Beck et al. (2008) specify that, in the assessment of SMEs' credit, banks generally apply 'scoring models' as one of the techniques for assessing potential credit. In this respect, 'collateral' and 'creditworthiness' are representative aspects in the assessment process for lending. In contraposition, Dabrassi Prandi (2006) indicates that the banking sector enhances relationships for lending with firms. Banks recognise that the acquisition of clients' information through quantitative and qualitative means, combined with effective monitoring, might lead to cost reduction over lending activities to achieve 'economies of scale' and risk control (Dabrassi Prandi, 2006). Lane and Quack (1999) consider the risk element linked to credit activities an important element in banks' lending decisions. The SME market segment and the financial system structure both play a role in banks' decisions and their choice over system orientation (Lane and Quack, 1999). In the context of access to credit, it is, therefore, relevant to distinguish between the two information types in relation to lending. These can, as specified, be divided into

qualitative and quantitative types. To distinguish, qualitative information or 'soft' data is gained through a relationship-type lending technique, whilst quantitative information or 'hard' data, by means of transactional approaches, leans towards more conventional evaluation processes (see Petersen, 2004; Bongini et al., 2009 and Udell, 2008). Bartoli et al. (2013a), following their study on Italian manufacturing firms, suggest that lending technologies can be 'complementary' and therefore not mutually exclusive. Furthermore, they highlight that soft information is predominant irrespective of the application of both lending technologies to the assessment process. Fredriksson and Moro (2014) emphasise that the association between hard type information and relationship type technology might be relevant in the evaluation process. This is particularly true for local banks in the assessment of opaque firms like SMEs (Fredriksson and Moro, 2014). Udell (2008) states that lending technologies are linked to the cost of their implementation and this might play a role in the bank decisions over their applicability. However, the author does also underline that to maintain an 'optimal risk management' strategy a combination of the two lending technologies might be appropriate (Udell, 2008, p.94), therefore, showing an analogy to Bartoli et al.'s (2013a) theory and to Fredriksson and Moro's (2014) assertion. Levine (2002) indicates that methodology to lending assessment neither complement nor influence one another.

This section provides an illustration of the two options with an emphasis on relationship lending as the approach to favour SMEs' access to credit. For those readers most interested in a summarised reference, Figures 9 and 10, at the end of the two individual sections on approaches to lending, provide an analytical synopsis of lending approaches taxonomy and associated characteristics and attributes.

### 2.3.1 Relationship lending approach

Berger and Udell, in 2006, stressed that the application of a relationship lending approach to SMEs could be equally endorsed by both small and larger institutions. The view of Stein (2002), however, offers a contrasting view by stating that large organisations face diseconomies of scale in the application of a relationship lending technique; a disincentive, therefore, for the application of this approach of

lending by larger banks. de la Torre et al. (2010, p.2280), however, suggest that 'banks perceive SMEs as a core and strategic business and seem well-positioned to expand their links with SMEs'. Their statement agrees with that of Berger and Udell in 2006 and finds further consistency with the study of Berger and Black in 2011.

Extant research (Beck et al., 2008, p.1; Mercieca et al., 2009 and de la Torre et al., 2010) suggests that, due to growing competition, large institutions find the SME market segment interesting for their business differentiation and specialisation. According to de la Torre et al. (2010, p.2281), high competition within the banking market sector, due to internationalisation, creates the scope to explore other strategic and most profitable market segments. Large banks appear to be better equipped, both financially and structurally, through both 'centralised' and 'decentralised' systems, to deal with SMEs. In this respect, it is suggested that the '...ability to serve many SMEs (and for international banks, the ability to serve also many countries) through large multi-service platforms and branch networks and through sophisticated business models and risk management systems give large banks a competitive edge, enabling them to compensate more easily for the fixed and switching costs of developing products and services to engage with SMEs while exploiting economies of scale and scope' (de la Torre et al., 2010, p.2281). A study conducted by Beck et al. (2008, pp.1-3) provides an analysis of the lending activities of 91 banks worldwide. It offers a study of larger banks' perceptions of SME processes in respect of credit activities. Their research highlighted that large banks tend to perceive the SME market as a profitable one in view of the high competition within the banking sector. Contextually, the findings indicate that banks are enacting a strategy where efficiency in lending can be maximised by decentralising operations. This allows a greater degree of independence for 'branches' to enable specialisation over lending activities to SMEs. In addition, in terms of the number of local branches, large banks represent the segment within the financial sector with the highest potential for providing credit to SMEs (see Mercieca et al., 2009). In the face of the above considerations, there is a suggestion that larger institutions find SMEs a segment that could provide an opportunity to increase bank market share and to improve

institutions' financial portfolio activities (see Beck et al., 2008; Mercieca et al., 2009 and de la Torre et al., 2010).

Boot (2000, p.10) provides a general idea by stating that "We define relationship banking as the provision of financial services by a financial intermediary that: invests in obtaining customer-specific information, often proprietary in nature and evaluates the profitability of these investments through multiple interactions with the same customer over time and/or across products." Concepts of relationship lending developed when researchers like Berger and Udell (2002), Ongena and Smith (2001), Petersen (2004) and Petersen and Rajan (2002) introduced the notion that relationships between banks and borrowers might affect investment activities and the ability of businesses to develop and grow. In this context, Elsas (2005) provides a focus on the 'hausebank' concept. Here, the factor impacting on lenders' ability or willingness to lend is ascribable to the commitment exercised by banks to local development by focusing on investment and growth. It is further suggested that these kinds of realities, shaped by a relationship lending approach and based on trust, can create business incentives for sharing strategic internal information to establish a long-term relationship (Elsas, 2005). Bongini et al. (2009, pp.4-6) provide an interesting overview of the 'distinctive characteristics' of relationship lending, suggesting three main features associated with the 'bank-client relationship length', the 'relationship intensity' and the 'operational and organisational methods by which the bank-client is realised'.

The literature indicates that 'relationship lending' activities might be relevant to the banking sector by helping to gain competitive advantage by providing basic services in order to achieve customer retentions (Payne, 2005). Boot (2000) puts forward what appears to be an interesting antithesis about the issue surrounding competition within the banking sector and the correlation with relationship lending ascribable to the information hypothesis (Petersen and Rayan, 1995). In fact, he proposes that increases in competition and the possible switching exercised by businesses can lead to the diminished interest of institutions in using a relationship lending approach. This is ascribable to the costs linked to the process of gathering and monitoring information (Kersten et al., 2017). However, he indicates that banks could gain competitive advantage by emphasising the use of relationship lending through specialised services. Kane and Malkiel (1965) identified that the

way to gain and retain customers might be researched by managing relevant information on borrowers and their worthiness, both in terms of repayments and deposits. To follow these theories, a strategy based on customer value to client retention, ascribable to the notion of customer relationship management, to provide services' differentiation can lead to lower costs of credit and interest rate applications (Payne, 2005 and Degryse and Van Cayseele, 2000).

Lending assessment through relationship lending-type evaluation is viewed as a process whereby banks acquire internal and external information about the firms' environment to assess business worth. This type of assessment is based on establishing a relationship based on 'trust' between the institution and clients (Elsas, 2005). This approach is, therefore, subjective in nature and is by definition 'discretionary' and 'flexible'. It is, however, an intensive and costly activity to be developed over time, requiring a level of expertise (Dabrassi Prandi, 2006; Boot, 2000 and Lewicki and Bunker, 1996 cited Moro et al., 2012). An interesting view is provided by Boot et al. (1993 cited in Boot, 2000, p.13), who specify that 'flexibility' is able to 'improve welfare because discretion has value'. In fact, discretion over lending through a relationship, by a screening and monitoring activity, addresses the asymmetry of information which characterises opaque businesses and gives rise to what is known as adverse selection. Lack of information to determine SMEs' value, poses an asymmetric condition and impairs an assessment of the risk linked to creditors' resources. Asymmetry arises, therefore, due to an imbalance of information between the customer and the bank as SMEs are not listed nor can they provide statutory or value market data. Discretion assists to mitigate the opacity element and to reduce the adverse selection as banks are able, by exercising flexibility, to apply discretion over decision for access to credit (Roberts, 2015; Bongini et al., 2009; Berger and Udell, 1995; Detragianche et al., 2000; European Banking Authority, 2016; Kysucky and Norden, 2014; Cenni et al., 2015; Kirschenmann, 2016 and Milani, 2014 and European Banking Authority, 2016). Sharpe (1990 cited Hernàndez-Cànovas and Martinez-Solano, 2010, p.466) speaks of the bargaining power that banks can exercise on borrowers once relevant and strategic information is acquired. Berger and Udell (1995, p.378) in their research, however, suggest that "small firms are generally more dependent

on banks and are more likely to have the type of asymmetric information problems that a bank-borrower relationship may resolve".

Bhattacharya and Thakor (1993 cited Bongini et al., 2009) start to view the acquisition of data, obtained through an established customer relationship, as a way to avoid 'asymmetries'. (Bongini et al., 2009; Cotugno et al., 2013 and Kysucky and Norden, 2014) This allows the creation and maintenance of a flow of information to enable access to credit for those consumers less capable of providing statutory documents such as financial statements thus possibly reducing 'credit rationing' for SMEs (Bongini et al., 2009; Cotugno et al., 2013; Bartoli et al., 2013 and Kirschenmann, 2016). In the case of small opaque businesses for which SMEs are unable to provide market ratings or statutory financial information and whose value and credibility is, therefore, not easily determinable, relationship lending is viewed as the best means of assessing the worthiness of the firm (see Petersen and Rajan, 2002 and European Banking Authority, 2016; Berger et al., 2009 and de la Torre et al., 2010). Sharpe (1990 cited Hernàndez-Cànovas and Martinez-Solano, 2010, p.466) indicates that 'the asymmetric evolution of the information between the relationship lender and the other banks reduces ex-post competition'. Berger and Udell (2002, p.F32) regard relationship banking as 'one of the most powerful technologies available to reduce information problems in small firms'. Boot (2000, p.14) highlights that relationship lending is by nature 'discretionary' and as such is built on trust between 'actors' and suggests that "this may allow implicit – non-enforceable – long-term contracting with a bank in circumstances in which information asymmetries and the non-contractibility of various pieces of information would rule out long-term access to alternative capital market funding sources as well as explicit long-term commitments by banks". Cole (1998) finds that banks are more prone to providing credit to those firms with which they maintain a relationship.

Credit assessment based on qualitative information, attributable to a relationship lending approach, can therefore address the asymmetry and opacity issues which are recognised as hindering elements for lending. In fact, asymmetry can affect the bargaining power due to an imbalance of information between the 'principal and the agent'. At the same time, opaque businesses are unable to provide quantifiable data represented, as previously underlined in this section, by

information like statutory financial information or market ratings. Asymmetry and opacity are, therefore, elements that can affect the quality of services provided and the ability to access credit (Bongini et al., 2009; Galloui, 1997; Comeig et al., 2015 and Kirschenmann, 2016). Within this context, Bhattacharya and Thakor (1993, cited Bongini et al., 2009) view an established customer relationship as an approach for acquiring data by creating and maintaining a flow of information able to avoid 'asymmetries'. Fazzari et al. (1988 cited in Castelli et al., 2009, p.8) highlight that 'The relationship between a firm and a bank can help to overcome information asymmetries and agency problems that create liquidity constraints which can reduce firms' investment' (Boot, 2000; Berger and Udell, 2002 and Stein, 2002). Moro et al. (2015), by studying different characterising dimensions on type of information like 'quality, quantity, completeness and timeliness', determined that a reduction of information asymmetry is a determinant, positive element in credit access.

Boot (2000, p.16) underlines that relationship lending can lead to two types of 'primary costs'. Essentially, those are related to the 'soft-budget constraint' and the 'hold-up problem'. In the former case, banks might find it difficult to 'enforce credit contracts'. This might lead to cost increases for borrowing. SMEs, in turn, can find themselves being 'informationally captured' due to the established relationship and the high costs attached to bank changes and to establishing new relationships. Furthermore, this might lead to an increase in the cost of credit as banks can exercise bargaining power on SMEs (Ongena and Smith, 2001; Boot, 2000; Degryse and Van Cayseele, 2000; Castelli et al., 2009; Angelini et al., 1998; Elsas and Krahnen, 1998 and Cotugno et al., 2013). The acquisition of clients' strategic and meaningful information poses, as already indicated, the hold-up dilemma. Effectively, a relationship banking application for lending, where the institution acquires a high degree of knowledge of clients' information, can lead businesses to be 'informationally captured'. Institutions might exercise power over clients, which might lead to an increase in costs for credit (see Boot, 2000; Elsas and Krahnen, 1998 and Kysucky and Norden, 2014). Furthermore, businesses can be affected by the agency problem (Berger and Udell, 2002).

Ongena and Smith (2001), in their analysis of the ‘duration of relationships’ by looking at Norwegian firms and banks’ data, identify that organisations tend to have a multi-banking relationship. SMEs view a possible interruption of an established relationship with a financial institution as a constraint linked to the resulting uncertainty about credit allocation from other banks (Castelli et al., 2009). The reason behind a multiple relationship is ascribable to the ‘hold-up’ problem (Rajan, 1992). Findings tend, however, to suggest that firms switch banks for the right conditions. Small, young and highly creditable businesses are more predisposed to bank changeovers (Ongena and Smith, 2001). Detragianche et al., in 2000, and Boot, in 2002, agreed with Ongena and Smith (2001) that organisations may rely on multiple banking relationships to avoid being informationally captured or locked-in. In this context, Mercieca et al. (2009, p.137) studied the effects of competition in Germany and in the United Kingdom on the “number of lending relationships maintained by SMEs”, and found that, in this context, “competition has a positive influence”. However, Cole (1998) indicates that banks are less prone to providing credit to clients entertaining multiple relationships. Multiple banking creates the scope for SME’ credit rationing as ‘informational rents’ enhanced by a relationship lending activity are reduced. In fact, in this context ‘information advantage’ assumes less relevance (Sharpe 1990 in Cenni et al., 2015 and Rajan, 1992). However, it is underlined that, in the case of a multiple banking strategy, screening prior to lending approval is more rigorous (Jiménez and Saurina, 2004 and Voordeckers and Srìteijvers, 2006). Cenni et al. (2015) highlight that multi banking can be regarded as less effective for credit allocation. Furthermore, the application of multiple banking can negatively affect borrowers’ ‘liquidation value’. A study conducted by Angelini et al. (1998 cited Castelli et al., 2009, p.11) emphasises that organisations, in particular small firms, should not avail themselves of a great number of bank relationships. Liquidity is favoured when the concentration on the number of banks is limited. Furthermore, the evidence tends to suggest that the firms’ ‘hold-up’ element (Boot, 2000; Ongena and Smith, 2001), exercised by banks in the case of established relationships, does not facilitate credit access, especially when a strategy based on ‘multiple banking’ is applied, as lending is not considered cost-effective. Studies highlight that a multiple banking strategy might be feasible for those firms which

can provide a positive solvency position (Bolton and Scharfstein, 1996 in Cenni et al., 2015, p.251).

Petersen and Rajan (2002) address the issue of ‘proximity’ by underlining how distance affects the lending evaluation. In fact, they indicate that the application of technology to process evaluations is introduced as the distance between the bank and the borrower increases. This implies that, as distance increases, banks start to rely less on relationship lending and more on transaction technologies based on ‘hard’ information. Hauswald and Marquez in 2000 (cited in Berger and Udell 2002, p. F41) emphasise the ‘proximity’ issue, stating that ‘a recent theoretical model predicts that relationship lending diminishes with ‘informational distance’, or the costs of generating borrower-specific information, which is likely to be associated with physical distance’. In addition, Berger and Udell (2002) indicate that the issue of proximity to the firm is essential for gathering, monitoring and updating ‘soft’ information. This is endorsed by a study conducted by Cotugno et al. (2013). They found that proximity allows the collection of soft information which can ease credit availability and positively affect credit conditions. Moreover, Boot (2000, p.7) illustrates that the “...proximity between the bank and the borrower has been shown to facilitate monitoring and screening and can overcome problems of asymmetric information”. There is an indication that relationship lending activity, underscored by a decentralised system to enhance ‘proximity’, addresses the elements of opacity and information asymmetry (see Boot, 2000 and Ongena and Smith, 2001). The application of a relationship lending approach to the evaluation and monitoring assessment process is, therefore, considered positive in favouring ‘opaque’ businesses in accessing credit (see Berger and Udell, 1995; Berger and Udell, 2002; Petersen and Rajan, 2002; Berger and Udell, 2002; Boot, 2000 and Ongena and Smith, 2001). Bartoli et al. (2013a) provide, however, a divergent perspective by highlighting that banks apply both lending technologies to SMEs irrespective of the proximity to clients.

To summarise the critical and positive aspects of the analytical perspectives of a relationship lending approach, this is an intensive and costly activity, embedding an element of judgment that requires a level of expertise in assessing data which is ‘subjective’, ‘discretionary’ and ‘flexible’. Furthermore, an established relationship or correlation should be based on an expected ‘mutual dependency’

contributing to the reciprocal satisfaction towards the end results. Data on screening, evaluation and monitoring activities are not standardised, nor easily quantifiable or transferable. The aggregation of clients' information, both internal and external, requires a high degree of specialisation and forms the basis for future credit assessments and financial support (see Berger and Udell, 2002; Dabrassi Prandi, 2006; Boot, 2000; Boot and Thakor, 2000; Elsas and Khrannen, 1998; Elsas, 2005; Bharath et al., 2007; Beck et al., 2008; Petersen and Rajan, 2002; Berger and Black, 2011 and Mohr et al., 1996 in Retap et al., 2016).

As already indicated, in a relationship lending approach, firms and external environment knowledge are recognised as positive elements for the evaluation and monitoring processes, as the acquisition of 'soft' information can effectively reduce the risk factors and encourage lending to riskier firms. Cost of lending is, however, recognised as a discouraging element in a relationship lending approach. The cost factor might be mitigated as 'economies of scale' are generated by acquired expertise and clients' knowledge (see Dabrassi Prandi, 2006; Bongini et al., 2009; de la Torre et al., 2010; Berger and Black, 2011; Elsas and Krahnen, 1998; Angelini et al.,1998 and Jiménez and Saurina, 2004).

Bonini et al. (2016) underline that the debate on relationship lending emphasises two lines of thought. They describe them as the 'bright side' and the 'dark side' (Bonini et al., 2016, p.173).

The bright side view recognises relationship lending as an effective approach to SMEs' access to credit, beneficial to both borrowers and banks. In fact, a lengthy relationship which considers lenders' access to borrowers' information can assure a certain level of control for risk which, in turn, can reduce collateral requirements, interest rates levels and cost of credit on the firms (Bonini et al., 2016 and Comeig et al., 2015). Baas and Schrooten (2006), however, suggest that interest rate application fluctuates according to the quality of information provided to banks. Fredriksson and Moro's (2014, p.68) results indicate that price is linked to risk and, therefore, that a high risk borrower faces higher interest rates and costs of credit to account for 'risk-adjusted' profitability. It is argued that collateral can mitigate the issue of information asymmetry and adverse selection and that risk can be reduced by an 'intense communication' which favours quality data and trust

(Bester 1987 in Ono and Uesugi, 2009; Jimènez and Saurina, 2004 and Voordeckers and Steijvers, 2006, p.3071) It is further underlined that trust between parties is favoured by effective communication as mutual considerations may be developed (Moro et al., 2012). Hernandez-Cànovas and Martinez-Solano (2010) underline how trust and a relationship lending approach are closely associated elements and that the two ingredients concur to reduce interest rate levels. Through the application of relationship banking methodology, banks are able to measure creditworthiness on the basis of long-standing relationships. This approach endorses the evaluation, through external and internal knowledge, of businesses' potential to innovate and to compete effectively (Behr and Güttler, 2007 and Memmel et al., 2007). Moro et al. (2012) highlight how a link between relationship and trust can assist in reducing the perceived risk to default contributing to lessening costs and the demand for collateral. Ono and Uesugi (2009) advocate that collateral is a supplement to the application of relationship lending and that SMEs that entertain an established relationship are more likely to commit collateral. However, they also underline that the risk factor scarcely affects collateral requirements by banks. Voordeckers and Steijvers (2006) agree with Ono and Uesugi (2009) by indicating that, in a strong relationship lending context, SMEs are more prone to committing collateral. Boot et al. (1991) indicate that, on a 'loan contract' only riskier SMEs are required to provide collateral. This view is also shared by a study conducted by Berger and Udell (1990). Jimènez and Saurina (2004) instead suggest that high risk is linked to the application of high level interest and an absence of collateral whilst low risk requires collateral and the application of low interest rates. Comeig et al. (2015) suggest that interest rates might be reduced if SMEs are prepared to provide collateral for the proposed projects for which they require credit. Voordeckers and Steijvers (2006) underline that collateral requirement levels from banks might be connected to prevent firms' further lending from other institutions. Berger and Udell (1995) maintain that a multi banking operation might induce banks to require collateral. Harhoff and Korting (1998) share Berger and Udell's (1995) view by underlining how the number of relationships are directly proportional to collateral requirement. Banks' collateral requirements are, according to Behr et al. (2011), a way to monitor borrowers. Bonini et al. (2016) further underline that the positive effects of a relationship lending application are preserved even in a period of financial turmoil

and credit crunch by an attenuation of the credit rationing (Elsas, 2005; Boot and Thakor, 1994 and Petersen and Rajan, 1994; Cotugno et al., 2013; Bolton et al., 2013; Beck et al., 2014). De la Torre et al. (2010), following their study to include European and extra European countries in the periods 2007 to 2009, concluded that SMEs' access to credit is not characterised solely by relationship lending type technology. In fact, they suggest that lending is also obtained through a more quantitative means of assessment.

The dark side view considers the application of a relationship lending approach as positive for borrowers and negative for banks. Specifically, the costs linked to monitoring, screening and control, typical of a relation lending approach, might exceed the benefits. This could translate into higher costs for the borrower leading to a multiple banking strategy (Rajan, 1992 and Bonini et al., 2016).

**Figure 9: Synopsis of relationship lending approach taxonomy**

| **Soft Type Information** |
| --- |
| Purpose<br>Qualitative information technology to address SMEs' opacity and asymmetry for risk mitigation and reduction of cost of credit enhanced by proximity |
| **Distinctive Elements** |
| Concentration on knowledge of business and external environment (advantage of proximity to clients and the business environment)<br>High costs associated with monitoring activities<br>Cost benefits over time through economies of scale<br>Discretionary in nature<br>Time-consuming<br>Low process standardisation<br>Not easily quantifiable<br>Element of subjectivity / judgment<br>High degree of specialisation<br>Information not easily transferable |

Continue on next page

**Addressed Aspects**

**Opacity** (see Roberts, 2015; Bongini et al., 2009; Berger and Udell, 1995; Detragianche et al.,2000; Kysucky and Norden, 2014; Cenni et al., 2015; Kirschenmann, 2016 and Milani, 2014)

**Asymmetry** (see Bongini et al., 2009; Galloui, 1997; Comeig et al., 2015; Kirschenmann, 2016, Bhattacharya and Thakor,1993, cited Bongini et al., 2009 and Moro et al., 2015)

- **Asymmetry addressed by proximity** (see Boot, 2000 and Ongena and Smith, 2001)
- **Asymmetry and opacity can affect quality of services (see** Bongini et al., 2009; Galloui, 1997; Comeig et al., 2015 and Kirschenmann, 2016)

**Adverse selection** (see Roberts, 2015; Bongini et al., 2009; Berger and Udell, 1995; Detragianche et al., 2000; Kysucky and Norden, 2014; Cenni et al., 2015; Kirschenmann, 2016 and Milani, 2014)

**Risk of lending**: Scholars' views

- Control (Bonini et al., 2016 and Comeig et al., 2015)
- Reduction by **intense communication** towards **quality data and trust** (Bester, 1987 in Ono and Uesugi, 2009, Jimènez and Saurina, 2004 and Voordeckers and Staijvers, 2006)
- Favoured by **trust** through **effective communication** to build mutual considerations (Moro et al., 2012)

**Strategy based on customer value to clients' retention** (customer relationship management) to provide services' differentiation

- (clients' retention to customer value mitigates the cost of credit, to include interest rates) (see Payne, 2005 and Degryse and Van Cayseele, 2000)

**Collateral – interest rates – total cost**: Scholars' views

- Reduction (Bonini et al., 2016 and Comeig et al., 2015)
- Interest rates reduced by trust in a relationship context (Hernandez-Cànovas and Martinez-Solano, 2010)
- Low interest rates linked to low risk SMEs (Jimènez and Saurina, 2004)
- Collateral is absent in the case of high risk SMEs (Jimènez and Saurina, 2004)
- Collateral request and cost of credit reduced by trust in a relationship context (Moro et al., 2012)
- Collateral scarcely affected by the risk factor (Ono and Uesugi, 2009)
- Collateral to mitigate information asymmetry and adverse selection (Bester, 1987 in Ono and Uesugi, 2009 and Jimènez and Saurina, 2004)
- Collateral may reduce interest rate level (Comeig et al., 2005)
- Collateral a way to monitor (Behr et al., 2011)

**Adverse towards:**

**Hold-up problem** (captured in – informationally captured) (see Rajan, 1992)

- enhances **multi-banking** (Ongena and Smith, 2001; Cenni et al., 2015; Cole,1998; Detragianche et al.,2000; Boot,2002; Ongena and Smith,2001)

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- Screening more rigorous in multiple banking (Jiménez and Saurina, 2004 and Voordeckers and Srìteijvers, 2006)

**Collateral – interest rates – total cost**: Scholars' view

- Interest rates fluctuate according to information quality (Baas and Schrooten, 2006)
- High interest rates due to high risk SMEs (Jimènez and Saurina, 2004)
- Collateral required for low risk SMEs (Jimènez and Saurina, 2004)
- High risk borrowers affect interest rate levels and cost of credit (Fredriksson and Moro, 2014)
- Collateral required for low risk SMEs (Jimènez and Saurina, 2004)
- Collateral more likely committed by SMEs engaged in a relationship (Onu and Uesugi, 2009 and Voordeckers and Steijvers, 2006)
- Collateral only required for riskier SMEs (Boot et al., 1991 and Berger and Udell, 1990)
- Collateral a way to prevent further lending by other institutions (Voordeckers and Steijvers, 2006)
- Collateral required by a multi banking operation (Berger and Udell, 1995 and Harhoff and Korting, 1998)
- Higher costs leading to multiple banking (Rajan, 1992 and Bonini et al., 2016)

Source: Berger and Udell, 2002, pp.F36-F43; Berger and Udell, 2006, pp.2946-2951; Berger et al., 2011, p.2; Dabrassi Prandi, 2006, p.26; Berger and Black, 2011, pp.724-735; de la Torre et al., 2010, p.2280; Baas and Schrooten, 2006 p.129; Payne 2005; Roberts 2015; Bongini et al., 2009; Berger and Udell, 1995 and Elsas, 2005

### 2.3.2 Transactional approaches compared to a relationship lending approach

Banks' assessment of credit through a transactional technique, as opposed to a relationship approach, is an objective and low-cost process requiring low expertise. It is based on the evaluation of clients' worthiness on a one-off basis through statutory financial statements, business planning or market ratings (Dabrassi Prandi, 2006 and Petersen, 2004). The process is based on quantifiable information analysis and evaluation. The aggregated information from screening activities is by nature 'low-cost', 'impersonal' and 'objective'. Data is easily transferable and readily available; therefore, the degree of specialisation is low if compared to a relationship lending-type approach (see Dabrassi Prandi, 2006; Petersen, 2004; and Berger and Udell, 2006).

As opposed to a relationship lending option, this approach is mainly applied by centralised systems taking advantage of standardised processes. The issue of proximity to businesses appears, therefore, to be less significant. In this context, Alessandrini et al. (2009) highlight that distance does, however, negatively affect credit availability for SMEs. Petersen and Rajan (2002, p.2535) indicate that the reliance on technology "...changes the nature of lending from an emphasis on strict ex-ante screening and costly ex-post monitoring, to frequent ex-post monitoring and quick intervention". Of the same view is Petersen (2004), who states that advancement in technology-assisted tools is leading to changes in the way information can be transferred, with the associated argument that 'hard' technology is becoming more easily acquirable and measurable. Furthermore, reliance on 'hard' information is leading to increased restructuring of the banking sector to intensify consolidation approaches and strategies towards lending assessment processes.

Transactional banking characteristics diverge from those distinctive of a relationship lending approach. In fact, a transactional lending approach application to lending is not effective in addressing the issue of the 'opaqueness' of those businesses unable to provide information, either in the form of certified statutory accounts or by third party judgements such as external market ratios. In contrast to a relationship lending approach, a transactional lending approach, based on a centralised system, guides towards a resolution of the hold-up problem as lending is based on a valuation of a specific single credit requirement and on possibly addressing the multi banking issue. The acquisition of businesses' information related to sector and to the environment is not a precondition of this type of approach. The element of asymmetry is, however, recognised as a constraining aspect as banks obtain hard data on clients to assess credit through ratings and scoring techniques. This can lead to the adverse selection problem (Detragiache et al., 2000 and Roberts, 2015) as banks cannot make decisions on opaque or informationally inadequate businesses. Milani (2014), however, advances the idea that the application of hard data, where possible, can attenuate the emerging effects of the adverse selection. The use of quantitative data in the lending assessment reduces the costs of lending due to standardised processes and readily available information. However, this type of approach, contrary to

relationship lending, does not address the cost of credit or interest rates as the risk element linked to opacity and asymmetry tends to raise these types of costs. The overview of the proposed literature suggests that, from a banking perspective, transactional lending addresses the risk factor. However, this type of lending methodology might exacerbate SMEs' ability to access credit due to the opacity elements (see Dabrassi Prandi, 2006; Petersen, 2004; Berger and Udell, 2006; Boot, 2000; Bongini et al., 2009; Payne, 2005; Berger and Udell, 1995; Elsas, 2005 and Detragiache et al., 2000).

Berger and Udell (2006), however, exemplify, through the representation of a 'conceptual framework' to lending, the importance of unfolding those elements ascribable to a quantitative based approach and how the associated technologies are successfully applicable to both 'transparent' and 'opaque' businesses. In fact, transactional lending attempts to overcome the opacity, asymmetry and distance elements through the application of credit scoring, asset-based, fixed assets, leasing and factoring as collateral means. These elements are readily available and accessible (see Berger and Udell, 2006 and De Young et al., 2008).

**Figure 10: Synopsis of transactional lending approach taxonomy**

| **Hard Type Information** | |
|---|---|
| Purpose<br>Quantitative-type information technology for risk avoidance based on a one-off application for credit | |
| **Distinctive Elements** | |
| Easily quantifiable<br>Easily transferable<br>High process standardisation<br>Element of objectivity – impersonal<br>Low level of specialisation<br>Less time consuming<br>Low cost of assessment process | |
| **Transactional vs. Relationship** | |
| **Addressing Aspects** | |
| **Transactional Approach** | **Relationship Lending** |
| Risk to lending<br>Agency problem<br>Hold-up problem<br>Multi-banking<br>Cost of lending (banks) | Opacity<br>Asymmetry<br>Adverse selection (due to mitigated asymmetry and opacity)<br>Risk of lending |

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| | |
|---|---|
| Adverse selection – (Milani) 2014 prospects that hard data can attenuate the problem | Collateral, interest rates and cost of credit<br>Cost of lending (over time – cost absorption)<br>Services' differentiation (clients' retention to customer value mitigates the cost of credit including interest rates) |
| **Adverse towards:** | |
| **Transactional Approach** | **Relationship Lending** |
| Opacity<br>Asymmetry<br>Cost of credit<br>Interest rates<br>Collateral, guarantees and ratings<br>Adverse selection (Detragiache et al., 2000 and Roberts, 2015) | Agency problem<br>Hold-up problem (captured in – informationally captured)<br>Multi-banking<br>Collateral, interest rates and cost of credit |
| **Transactional Lending – Basis of Assessment** | |
| ***** Financial statements (sophisticated accounting infrastructure)<br>***** Credit scoring (information from credit bureau consumer commercial and financial institutions)<br>***** Asset-based – collateral (value of accounts receivable and inventory)<br>***** Fixed asset – collateral (value on non-current assets)<br>***** Leasing – collateral (asset value on purchase of fixed assets)<br>***** Factoring –collateral (asset value on purchase of accounts receivables | |

Source: Berger and Udell, 2002, pp.F36-F43; Berger and Udell, 2006, pp.2946-2951; Berger et al., 2011, p.2; Dabrassi Prandi, 2006, p.26; Berger and Black, 2011, pp.724-735; de la Torre et al., 2010, p.2280; Baas and Schrooten, 2006, p.129; Payne, 2005; Roberts, 2015; Bongini et al., 2009; Berger and Udell, 1995 and Elsas, 2005; Dabrassi Prandi, 2006; Petersen, 2004; Berger and Udell, 2006; Boot, 2000; Bongini et al., 2009; Payne, 2005; Berger and Udell, 1995; Elsas, 2005; Detragiache et al., 2000; Milani, 2014; Galloui, 1997; Bhattacharya and Thakor,1993, cited Bongini et al., 2009; Moro et al., 2015; Ongena and Smith, 2001; Comeig et al., 2015; Kirschenmann, 2016; Kysucky and Norden, 2014; Cenni et al., 2015; Degryse and Van Cayseele, 2000; Bonini et al., 2016; Hernandez-Cànovas and Martinez-Solano, 2010; Moro et al., 2012; Ono and Uesugi, 2009; Bester, 1987 in Ono and Uesugi, 2009; Behr et al., 2011; Rajan, 1992; Ongena and Smith, 2001; Cole; 1998; Boot, 2002; Fredriksson and Moro,

2014; Jimènez and Saurina, 2004; Voordeckers and Steijvers, 2006; Boot et al., 1991; Berger and Udell,1990 and Harhoff and Korting, 1998

The literature review proposed above indicates relationship lending as the approach which could benefit SMEs' access to credit. Two elements arising are customer value and proximity. Customer value adds value to the assessment process and is briefly addressed in the next subsection. 'Proximity' to clients can mitigate recognised constraining factors. The literature, therefore, proposes an analytical overview of the main features surrounding these two aspects. The subsection that follows addresses 'customer value' and there follows a section on the overview of the 'proximity' element as a relationship lending technology constituent.

### 2.3.3 Customer value and information management

In the view of Payne (2005, p.103), 'value creation' is achieved by placing an emphasis on three features. These are described as the 'value customer receives', 'the value organisation receives' and the way the overall value is managed to achieve the objective (Payne, 2005, p.103). The relevant aspect is, therefore, the balance between the organisational objective and customer satisfaction as an element adding value to the business. This is to be regarded as a strategic factor towards long-term development. In fact, output is valued by customers and business success is dependable and measurable by this characteristic. The three interlinking elements that create value are described as 'cost', 'performance' and 'fulfilment' (Payne, 2005, p.124). These aspects lead to analysing customers' needs and the link to competitors to reach the desirable output which, in this case, would be lending to SMEs (see Payne, 2005 and Payne and Frow, 2005a).

According to Reichheld and Earl Sasser (1990), a relationship approach is based on processes to enhance customer retention and improve profit performances in the longer term. According to Kother (1994 in Retap et al., 2016, p.411) customer retention can be considered the answer to 'customer satisfaction'. These two elements together can, in turn, enhance 'customer loyalty'. In fact, Reichheld and Erl Sasser (1990) indicate that a 5% retention level can contribute to increasing profit levels by 100%. In their analysis, they show, in the context of 'banking', that

a 5% increase in retention can produce a 35% increase in the net present value profit (Reichheld and Earl Susser, 1990 in Payne, 2005, p.144). A qualitative approach based on relationship building can contribute to cost control and to its reduction as data collection and aggregation can be absorbed on a long-term basis. A long-term relationship can, therefore, enhance knowledge of the environment and of customers. This can lead to tailor-made facilities and to customer satisfaction and retention. All of these elements can contribute to developing 'customer value'. Customer value can be relevant to customer acquisition due to a form of indirect publicity. This is advantageous to businesses as it reduces costs. Institutions' investment in building relationships can, therefore, contribute to profit generation and to lower costs of evaluation, monitoring and assessment processes. In turn, a relationship due to the acquisition of knowledge through customer loyalty building can lead to a reduction in risk. A relationship lending-type activity contributes to customer loyalty and to possible increases in the services provided. Conversely, SMEs can overcome the issue of opacity and creditworthiness. They can benefit from cost reduction on loan finance from different sources from banks. The risk element may be addressed. SMEs can possibly engage more easily in agreements for accessing credit (see Reichheld and Earl Susser, 1990; Payne and Frow, 2005a; Xu and Walton, 2005 and Bowen and Shiang-Lig, 2001).

An endogenous aspect of customer relationship management (CRM) is indeed to design or provide data that can be available and shared to maximise knowledge towards a most effective decision process (Payne, 2005 and Xu and Walton, 2005). Payne (2005, p.230) indicates 'the function of information management in the CRM context is to transform information into useful knowledge and to apply this knowledge effectively and ethically in the creation of customer value'. Indeed, to be comprehensive and to allow an evaluation able to address the risk factor, the information should be representative of different sources. At the same time, it needs to provide value to customers. The development of information technology is, therefore, relevant in a customer relationship management context as it adds value to the assessment process. Data provision can be regarded as a functional contributing element to establishing or boosting relationships (see Payne 2005 and Payne and Frow, 2005a and Payne and Frow, 2005b).

## 2.4 The proximity element: local lending in an industrial districts/clusters context

It might be useful to first attempt to provide a distinction between the terms of clustering and districts to further progress towards endogenous concepts. A cluster is an agglomeration of interconnected businesses in a specific local geographical position. These forms of agglomerates include different productive sectors, suppliers of goods and services, financial and public institutions and organisations (Solvell 2008 and Krugman, 1991 cited Solvell, 2008 and Porter, 2008, p.215 and Sforzi and Lorenzini, 2002). In fact, 'A cluster can be broadly defined as a group of firms, related economic actors, and institutions that are located near each other and have reached a sufficient scale to develop specialised expertise, services, resources, suppliers and skills' (Commission of European Communities, 2008b, p.2). Clustering encourages synergic actions with other players within the local environment, thus leading to knowledge and competence transferability and outsourcing activities (Mytelka and Farinelli, 2000).

An industrial district is an agglomeration of localised and independent highly specialised industries as part of a principal productive activity. In some cases, they tend to operate in different stages of the production line and are characterised by SME predominance. These are synergic networking systems shaped by strong interconnections between different 'actors' within the industrial sector; a 'dynamic industrial development' towards local and regional growth (Solvell, 2008; Knorringa and Meyer-Stamer, 1998, p.2; Sforzi and Lorenzini, 2002; Boja, 2011 and Life, 2009, p.16).

Markusen (1996) points to different types of industrial districts in reality. These are to indicate the type of development and the possible benefits conveyed by different synergic relations. The most developed district is represented by the 'hub-and-spoke' system. This system is mostly characterised by few large organisations and small entities where vertical integration is promoted. Links are formed not only locally but also outside the district. Cooperation between larger organisations and small entities is not based on know-how sharing and it is characterised by a certain form of dominancy. The district is, in fact, predominated by the performance of larger entities.

The other side of the scale is represented by the ‘Marshallian’ type of industrial district. This is indicated as an effective structure to promote synergic dimensions. In this case, the district is predominated by SMEs. Cooperation is used to promote long-term relationships and vertical and horizontal integration and a propensity to share risk and know-how. This type of district is not open to external networking development. Markusen (1996) describes the other two types of district classification as ‘satellite’ and ‘state-anchored’ industrial districts. As the name indicates, the ‘satellite’ system is a settlement of businesses which operates in a cluster to deliver goods/services to external organisations. Businesses within the cluster are dominated by external organisations, mainly large ones. The objective is not to focus on collaborative structures to encourage progression towards dynamic synergic systems. The ‘state-anchored’ system is, instead, dominated by public institutions such as universities or authorities surrounded by businesses to provide goods and services. These institutions’ function is the focus of this type of industrial district, rather than the promotion of a collaborative environment for district growth (Markusen, 1996).

A cluster to include industrial sectors or districts might be relevant in actively participating in the development of a synergic environment whereby cooperation between different ‘actors’ can lead to local and regional growth to contribute to wealth creation. Actors who can participate in local development include ‘industry’, ‘financial institutions,’ ‘public bodies’, ‘universities’, ‘private-public entities’, and the ‘media’ (Solvell, 2008, p.13 and Boja, 2011, pp.39-40). A collaborative environment, based on the long-term and relationships, promotes vertical and horizontal integration between businesses and different actors representing the community at large. Aspects like rivalry, costs linked to establish operative networks and cultural aspects are indicated as possible discouraging elements to cooperation; however, drawbacks are counteracted by positive elements. In fact, rivalry can effectively lead to competition, which stimulates innovations and development within the agglomerate system (see Solvell et al., 2003; Porter, 1990; and Porter, 2008).

A synergic cooperative system, enhanced by the element of ‘proximity’, promotes decentralised structures to create a collaborative local and networking environment to encourage economic development. Proximity, as emphasised

earlier in this chapter, is relevant to the acquisition of information. It allows clients' positions and perspectives on their business investments and development to be understood. In financial terms, it promotes a relationship lending type approach to enhance cooperative action addressing the problem of information asymmetry thus supporting access to credit (see Angelini et al., 1998). This contributes to national economic growth and development as a cyclical process for wealth creation (see Reuttner and Glass, 2011; Everett et al., 2010 and DTI, 2002). In fact, cooperative systems can create synergic actions leading to businesses' innovation and development; to increases in production and purchasing power; to economies of scale and to access to credit (Knorringa and Meyer-Stamer, 1998; DTI, 2002; Solvell et al., 2003 and Angelini et al., 1998).

An important aspect discussed by Porter (1990, p.151) is the cluster capability to enhance innovation and information flows, to exploit new opportunities, to invest and specialise and to encourage new entries, research activities, development and innovation. Solvell (2008, p.12) indicates that different 'actors' play a vital role 'on the cluster stage'. These include not only public entities, favourable local policies, and academic institutions, to promote links in developing research and innovation, but also 'financial systems', SMEs and 'cluster organisations' to enhance investment and growth (Solvell, 2008 and Boja, 2011). Within this context, clusters assume relevance in Porter's (1990, p.72) application of the 'diamond' model to embrace four main areas drawing on vertical and horizontal integration, and to underline how policies might be relevant for economic development (e.g. Porter, 1990 and Boja, 2011).

Mytelka and Farinelli (2000, p.9) specify that advantages might be drawn by vertical and horizontal integrations or 'relationships' to reduce costs, like interest rates (Hasan et al., 2017) and risk for innovative production. The importance of synergic action, underscored by the 'proximity' element, is, therefore, recognised as a favourable element for industries' linkages leading to efficiency, sustainability, innovation and local development (e.g. Porter, 1990; Solvell, 2008; DTI, 2002; Lindqvist et al., 2013 and Boja, 2011). The DTI (2002, p.39) underscores how access to credit is to be regarded as an important element which may assist in favouring 'cluster development' and how the proximity of financial institutions may

support relationships and cooperation building to enhance lending activities. Financial institutions are regarded as relevant actors which can support cluster-type activities, where SMEs represent the highest concentration (Becattini et al., 2009). Localised banks assume relevance in the context of local arrangements which are characterised by different structural organisations and stages of development (Becattini et al., 2009). Hasan et al. (2017) indicate that cooperative banks assume a relevant role as local institutions to provide credit for SMEs. The advantage that those type banks can provide is a reduction in the cost of credit (Hasan et al., 2017). The study conducted by Hasan et al. (2017), in line with Berger et al. (2015) and Hakenes et al.'s (2014) research, further highlights how cooperative banks participate in SMEs' formation and growth and assist in reducing recognised constraints to credit access. Berger et al.'s (2008) findings, however, differ from Hasan et al.'s (2017) results as they indicate that opaque firms do not necessarily chose local or cooperative banks as their principal institution. The CONFIDI as Mutual Guarantee Institutions (MGI), due to their local concentration and high knowledge of the environment and SMEs' economic development, have the advantage of reducing asymmetries and creating an effective screening and monitoring process. This is reported to have beneficial effects on constraining elements in SMEs' credit access. Therefore, the credit assessment of SMEs' access to credit becomes more effective. Banks can gain advantage from the information provided by the MGI as it reduces the risk incidence, as asymmetric information is reduced, and the cost of lending linked to the screening and monitoring (Mistrulli et al., 2011; Camera di Commercio Artigianato Agricoltura di Torino, 2010; Bartoli et al., 2013b and Columba et al., 2010).

Mytelka and Farinelli (2000, p.8) emphasise how "high costs and risks, however, have meant that banks are reluctant to lend to SMEs. Under these conditions, care must be taken to tailor time and sequences policies, aimed at stimulating innovative behaviour, to the habits and practices of local actors." Conversely, the proximity element can favour the acquisition of qualitative information and contribute to establishing long-term relationships with SMEs and other players as proposed by a relationship lending approach. This view is shared by Agarwal and Hauswald (2010) and Cotugno et al. (2013) who indicate that proximity to firms

facilitates banks to easily acquire soft type data. This can, in turn, assist in reducing the risk element to favour SMEs' access to credit (see Becattini et al., 2009; Berger and Udell, 2002; Boot, 2000; Angelini et al.,1998; Alessandrini et al., 2009 and Cotugno et al., 2013). Milani (2014) highlights the relevance of soft data in the evaluation process to credit assessment and endorses Mytelka and Farinelli's (2000) view, by highlighting that distance between the bank and the SME hinders credit 'quality' as monitoring and information assimilation is onerous and problematic (DeYoung et al., 2008 and Agarwal and Hauswald, 2007 cited in Milani, 2014 and Alessandrini et al., 2009). Milani's (2014) results address the default element stressing that proximity limits its incidence whilst distance accentuate the adverse selection and the default occurrence. Duarte et al. (2017) highlight how proximity endorses screening to assess firms to access credit. Proximity endorses decentralised flatter banking structures to enhance knowledge of the business and the environment. Stein (2002) recognises this aspect and indicates that flatter institutions are better equipped to gain efficiencies from 'soft' information processes for lending evaluation. The element of proximity can address the opacity and asymmetry elements as a relationship lending approach can positively contribute to favouring SME lending activities (Becattini et al., 2009; Stein, 2002; Bongini et al., 2009; Boot, 2000, Berger and Udell, 2002; Petersen and Rajan, 2002; Angelini et al.,1998 and Ughetto, 2006 cited in Giannetti, 2012). Bartoli et al. (2013a, p.5476), following their study, highlight, however, that banks tend to adopt not only relationship lending towards credit assessment. In fact, they endorse the application of both lending technologies, respectively relationship and transactional approaches, underlining how 'size' and 'distance' do not appear to influence banks' evaluating orientations.

Presbitero and Zazzaro (2011, pp.410 and 388) indicate that the "strategic theory of relationship lending" directs towards a relationship lending type approach as local banks' 'business models' orientate themselves to the acquisition of clients' and marketplace knowledge for credit assessment. Competition enhances local banks to direct themselves towards the application of relationship technology for lending to serve opaque SMEs' characterised by information asymmetry. This strategy leads local lenders to have 'competitive edge' (Presbitero and Zazzaro, 2011; Boot and Thakor, 2000 and Dell'Arriccia and Marquesz, 2004). Contraposed

is the orientation towards an application of the “investment theory of relationship lending” (Presbitero and Zazzaro, 2011, p.410) as market power is promoted to acquire financial benefits deriving from the ‘informational rent’ (Rajan, 1992 and Petersen and Rajan, 1995).

The following Figure 11 offers an analytical synopsis on the extant literature to emphasise the arising elements for clusters/districts and to provide, through evaluating coding, perspectives to form the basis of this section. A dynamic industrial district is, therefore, ascribable to a strategy built on cooperation based on long-term relationships. The main features are the integration of vertical and horizontal processes towards production intensification to build on innovation. A synergic dynamic process can enhance investment, employment levels, local development, and networking for national economic growth and wealth. Synergies between different actors, enhanced by the proximity element, can be positive towards business innovation and development. Proximity can assist financial institutions to evaluate the environment and to establish relationships with the local community as added value ingredients in the evaluation process for credit. Financial institutions are recognised as critical actors and exogenous to businesses’ market penetration, growth and wealth (see Solvell, 2008; DTI, 2002; Boja, 2011; Lindqvist et al., 2013; Porter, 2008 and Mytelka and Farinelli, 2000). The subsequent section discusses the possible hindering elements of SMEs’ borrowing.

**Figure 11: Synopsis – districts and interlinked perspectives**

| **Literature review underscored elements** | **Perspectives on districts/clusters for SMEs** |
|---|---|
| **Districts/clusters**<br>Production intensification<br>Vertical integration (‘relationships’)<br>Horizontal integration (‘relationships’)<br>Innovation<br>Investment<br>Local development<br>Business synergies<br>Business growth<br>Employment<br>Wealth and economic growth | **Districts/clusters offer:**<br>**High degree of synergic action** due to integrations between different ‘actors’ within the local/regional/national system<br>**High potential to innovate, specialise and grow**<br>**Local banking systems favour:**<br>**SME** development, innovative investments, market penetration through synergic action<br>**Local banking** presence to create synergies between the institution and the local community |
| | |

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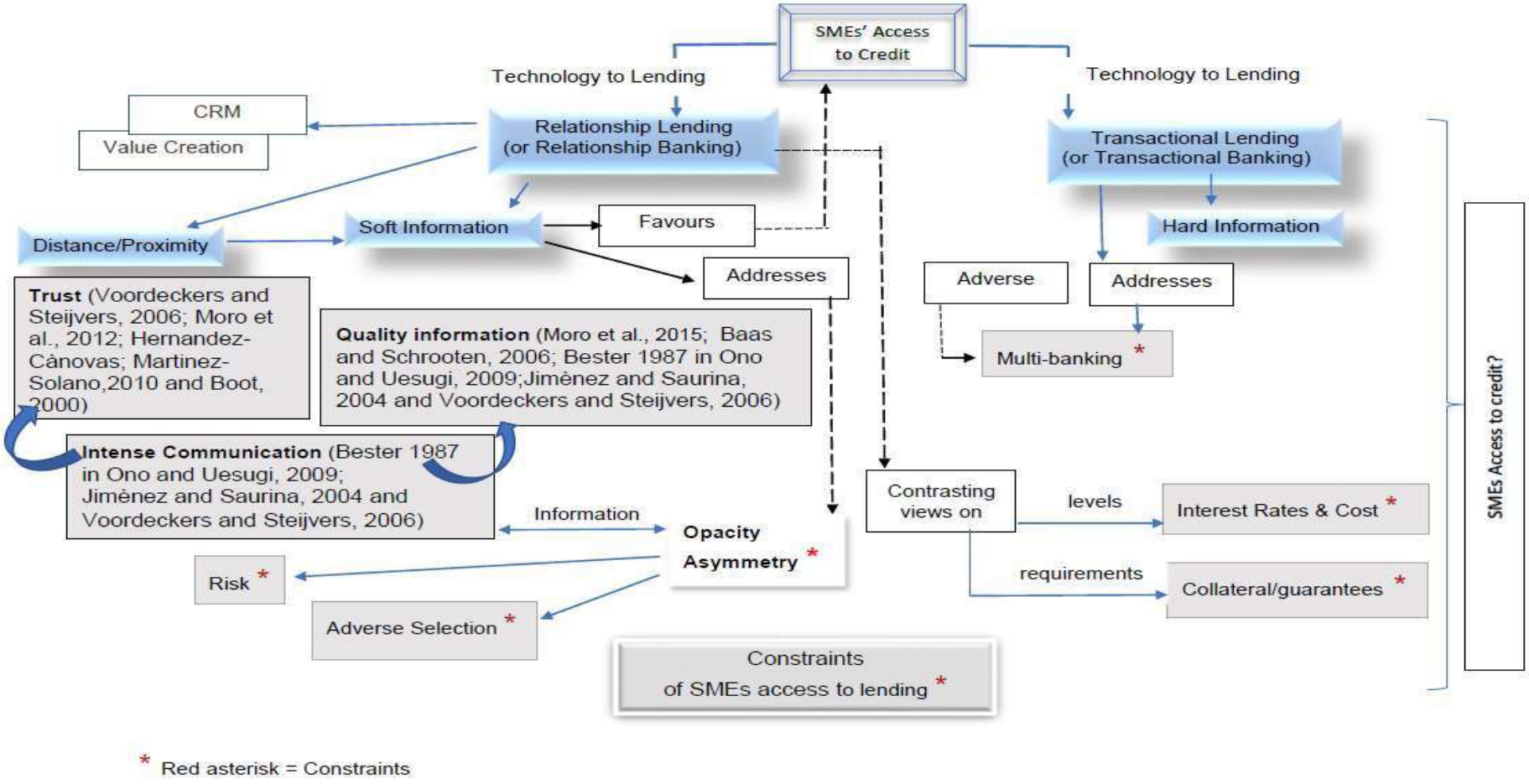
| | |
|---|---|
| **Constituents**<br><br>Proximity – to promote local synergies<br><br><br><br>Access to credit (contributing aspect) | **Effective lending** might lead to cost reductions and risk reduction for defaults<br>**Synergies** between different actors are positive within the cluster (district) systems<br>Liquidity can encourage SMEs to engage in research, development, innovation<br>**Financial institutions** are identified as significant – assuming relevance in the context of market penetration, growth and wealth |
| **Cohesiveness (synergies)**<br>– **considered critical actors** –<br>Universities<br>Local authorities<br>**Financial institutions**<br>Other businesses | |

## 2.5 A theoretical lens to guide the research

Reflecting on the outlined aspects, it may be useful to draw a visual representation of the selected distinctive characteristics to progress to a theoretical lens. According to Miles, Huberman and Saldana (2014, p.20) a conceptual framework "explains, either graphically or in narrative form, the main things to be studied – the key factors, variables or constructs – and the presumed interrelationships among them." Following this statement, a framework to indicate the interplay between the main aspects, derived from the critical review of the literature, is represented by Figure 12.

By contemplating the idiosyncratic aspects which characterise the literature on SMEs' access to credit, as drawn by the framework, the theoretical lens which may drive the investigation is presented and discussed. The following section is, through a conceptualisation of the characteristics and dynamics surrounding the research topic, to present the postulated theoretical lens which, it is thought, can guide the research enquiry. A conceptual framework, to embrace the selected distinctive aspects that pertain to this study together with the ingredients outlined by a theoretical lens to guide the empirical enquiry, is therefore presented.

**Figure 12: Framework derived by the review of the literature (main concepts thus providing the basis for this research enquiry)**



### 2.5.1 The Theoretical Lens adopted in the research

Retap et al. (2016), through a sample of 2000 SMEs, provide a study on the quality of the relationship by analysing factors like, ‘communication’, ‘trust’ and ‘information sharing’ and their relationship to satisfaction. Their research, through the application of both qualitative and quantitative methods, aimed to build a ‘lending relationship quality index’ (LRQ) as a new instrument to measure ‘relationship quality’ and its relation to satisfaction and retention by linking what they call ‘critical dimensions’ (Retap et al., 2016, pp.408-415). They emphasise that ‘previous researchers had focused on assessing relationship quality between the banks and their customers but have neglected to determine the quality of relationship in the context of lending between the banks and their SME borrowing customers’ (Retap et al., 2016, pp.408-409). The purpose of this research is to build on the idea and quality orientation considered by Retap et al. (2016) for enquiry, in qualitative terms, for these recognised constraining elements which characterise SMEs’ access to lending, through a causality analysis to link the cause and the outcome and/or influences and effects (Saldana, 2013) brought about by the phenomenon.

The literature highlights that information quality, trust and communication can positively affect SMEs’ access to credit (Baas and Schrooten, 2006; Moro et al., 2015; Fredriksson and Moro, 2014; Bester 1987 in Ono and Uesugi, 2009; Jimènez and Saurina, 2004 and Voordeckers and Steijvers, 2006). A relationship or correlation between different parties and its quality can be assumed by the notion of communication (Mountain and Davidson, 2015). A brief interlude to the discourse to avoid confusion appears necessary. A relationship in this context is intended as the correlation that might occur between actors who are represented by SMEs and banks. This is to provide a distinction between the latter and relationship lending as a technology for lending explored earlier in this chapter. Resuming the proposed argument, the communication aspect is considered a relevant instrument for channelling information of a different kind (Mohr et al., 1996 in Retap et al., 2016) between parties and it is, therefore, an influencing factor in

generating effects and results. Communication is, therefore, viewed as the primary considered factor in determining effectiveness. For this reason, communication is recognised as a pertinent element in the proposed research.

Quality is a constituent measured by the effectiveness of communication; the measure provided by way of feedback through responses and/or actions motivated by perceptions and direct and indirect effects on the reality. Value is a basis of quality affecting information provided and prerequisites and conditions required (eg: Baas and Schrooten, 2006; Bester 1987 in Ono and Uesugi, 2009; Jimènez and Saurina, 2004 and Voordeckers and Steijvers, 2006). Heide and John (1992 cited in Yang et al., 2016) highlight that information asymmetry, depicted by the extant literature as a primary constraint in SMEs' access to credit, can have an effect on trust, communication, quality over opinions and outcomes. Therefore, it could be said that communication, by way of information and conditions, determines the state of events (Retap et al., 2016; Sharma and Patterson, 1999; Vos, 2009 and Gronroos, 20014). The concept of value is reconciled to the notion of customer relationship management (CRM), where data should be shared so as to maximise the effectiveness of decision processes as deterministic to the course of actions (eg Payne, 2005). However, it should be underlined that although the above concepts or attributes are recognised as pertinent to this study, this study does not intend to investigate aspects characterising marketing customer satisfaction or total quality management. Rather the intent is to determine the causal effects derived by the results of communication as a relevant aspect in the correlation between occurrences which characterise and determine SMEs' access to credit.

The elaboration of the information, provided or received, makes up the constituents of a decisional process. The decisional process represents the preluding face of a contract. In the context of this research, the decisional process for the application and allocation of credit is considered pertinent. The exploration of the literature on SMEs' access to credit underlines the possible relevance and the linkages of 'communication effectiveness' (Moro et al., 2012) on the elements which characterise the two different methodologies for lending in terms of the decision process for SMEs' access to credit. The elements raised by the review of

the literature compel to place emphasis on the causality of those factors which may favour or constrain SMEs' access to credit.

The above discourse guides the enquiry on the dynamics of the proposed key factors. Transactional Analysis (TA) is the theoretical lens selected to guide the empirical investigation. Transactional Analysis is a theory which embraces the notions of communication and perception and it lends itself, by drawing on different models, to enquiry into the problem that this research proposes to explore. In fact, "TA emphasises the strong link between perception and communication and illustrates the way in which they affect each other" (Mullins, 1996, p.152). Molesworth et al. (2017, p.5) state that "..TA explains how we deal with our role in the world, it has been suggested that any relationship may be analysed using this model" (Harris, 1968; Mihailovic and Mihailovic, 2004; Campos, 2014; 2015). In the context of this research, the review of the literature indicates that a meaningful relationship with clients established between banks and SMEs can optimise or assist in accessing credit. The effectiveness of the relationship or correlation between banks and SMEs for quality and satisfaction assumes relevance in the context of this research. Transactional Analysis is "interactional in that it emphasizes the dynamics of transactions between people, and it is contractual in that group members develop clear statements of what they will change and how they will be different as a result of being in a group" (Corey, 2012, pp.323-324). In the same way, an interactional and contractual approach can emphasise the transactions which have to occur in the context of SMEs' access to credit. A contractual agreement between the parties, in this context SMEs and banks, assumes relevance in the way changes and adjustments should occur in the context of credit decisions.

Transactional Analysis is a theory developed by Berne in the 1950s in social psychology. It contributes, through a structural and a functional model, to respectively understanding personalities and behaviours (Williams and Williams, 1980, p.120). The purpose of this theory is to offer key concepts to be used by practitioners to assess communication in order to assist clients in their social context. It can, therefore, be considered an effective system for studying interactions between individuals (International Transactional Analysis Association,

2014). Although Transactional Analysis was developed for application in areas of counselling and psychotherapy, its use has since expanded to education and organisational behaviour contexts. The theory has further been applied in the context of business, industry and consultancy (International Transactional Analysis Association, 2014; Del Monte, no date; Corey, 2012, pp.343 – 344). Transactional Analysis today applies to marketing, services, nursing, health care communication, radiography, mentoring relationships in psychological contracting, B2B like the interaction between buyer and supplier in the creation of value, management and political economy (eg: Haggard and Turban, 2012; Kececi and Tasocak, 2009; Booth, 2007; Booth and Manning, 2006; Hadzi-Pesic et al., 2014; Jayantee, 2006; Mihailovic and Mihailovic,2004; Stewart and Joines, 2012). Theoretical concepts offered by the Transactional Analysis theory "are constantly being challenged and developed making it a rich dynamic process" (Mountain Associates, no date). Steward and Joines (2012, p.3) emphasise the application of Transactional Analysis in the field of both management and communication and indicate that the approach offers scope in terms of its application to other fields where the aspects of relationship, behavioural understanding and communications appear relevant factors for studying actions and decisions. Transactional Analysis can, therefore, provide a novel basis from which to explore the problem of SMEs' access to credit and to delineate an alternative perspective on the complexities linked to this topic. The application of Transactional Analysis as the theoretical lens to guide the research can contribute to knowledge by linking SMEs' access to credit to the proposed theory.

The following section proposes a description of the theory. It is not intended to be a report on Transactional Analysis but rather an outline of the theory and on the application of the models accompanied by the rationale and relevance of its application to the proposed research topic.

### 2.5.2 Transactional Analysis concepts and application for the research

"TA is a sophisticated theory of personality, motivation and problem solving" (Jayantee, 2006, p.423 and United States of America Transactional Analysis Association, 2017). The perception, interpretation and knowledge of the actions

and the responses as interactions or ‘transactions’ between individuals are relevant in developing effective communication (Jayantee, 2006; Stewart and Joines, 2012 and Berne, 2016a). Corey (2012) highlights that Transactional Analysis is about ‘phenomenological realities’ as interaction between individuals stem from real life states of affairs. The act of communicating serves a dual purpose. In the first instance, it is relevant in practice as it influences actions. Secondly, it has social effects on integration, cooperation and collaboration (Booth, 2007 and Corey, 2012).

The essence of Transactional Analysis can be demonstrated by set notions. These are prescribed according to determined expectations or assumptions leading to the two principles of ‘communication’ and ‘contract’ (Stewart and Joines, 2012). According to Jayentee (2006, p.431) the expectations on which TA is based are that ‘people are ok’, all are able to think, decisions are influenced by outcomes and by set objectives. The problem represents a stepping stone in changing a course of action. Communication represents the input which is transformed into a reaction or response due to a mental process. It starts from a consideration of the reality that is influenced by pre-existing knowledge, consolidated knowledge and formed opinions, perspectives, positions and convictions. The reaction is the result of the above interlinking elements. Decisions are derived on the basis of the analysis of the various elements as constituents of reality and of individual perceptions. ‘Communication’ and ‘contract’ are the two Transactional Analysis principles to form the basis of this section review (Jayentee, 2006; United States of America Transactional Analysis Association, 2017 and Stewart and Joines, 2012).

### 2.5.3 Communication

As briefly described by the previous section, Transactional Analysis was introduced by Eric Berne in the 1950s. His idea was that verbal communication should be considered the ‘centre of human social relationship’ (Mountain Associates, no date). Berne identifies the transactional ‘stimuli’ as a reaction that occurs when two entities interact with each other. The transactional stimulus is triggered by the so called ‘agent’. A response is expected as a reaction to the

stimulus and acted on by the ‘respondent’ (Mountain Associates, no date; and Berne, 2016a).

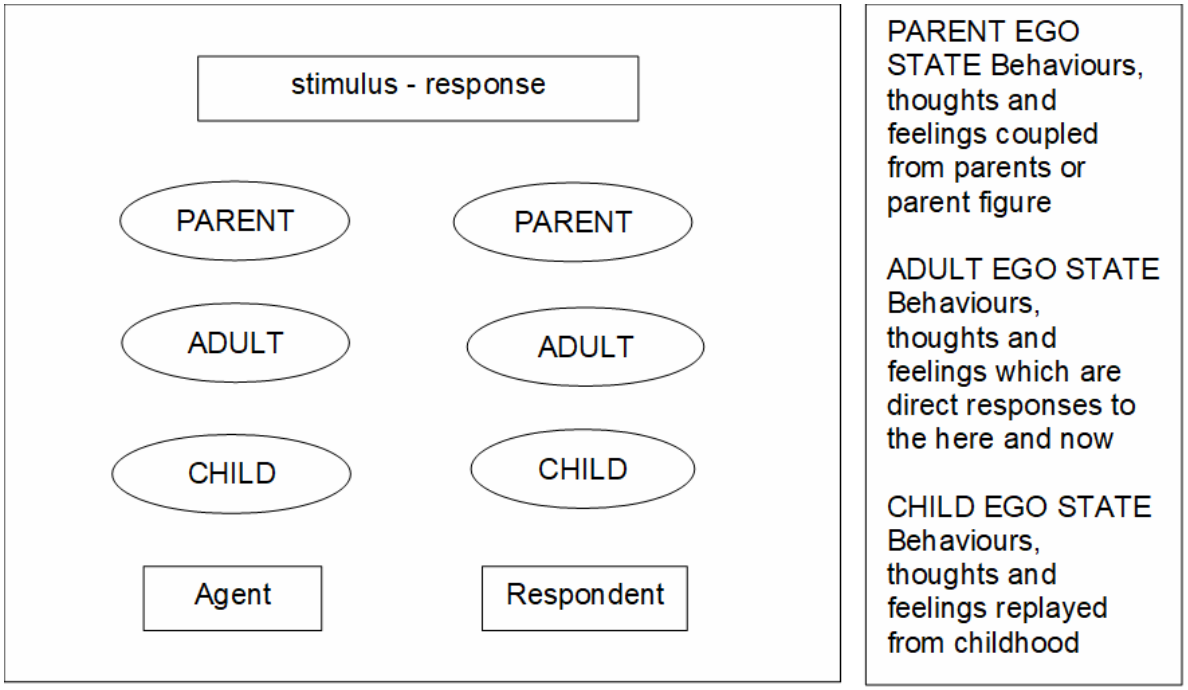
Transactional Analysis is, therefore, a way of examining a transaction through the passage ‘I do something to you and you do something to me’ (Harris and Harris, 1995). The main concepts are ascribable to the way individuals communicate and to the responses that the interaction can promote through the ‘stimulus’. The concepts developed by Eric Berne are called ‘ego states’. “An ego state may be described phenomenologically as a coherent system of feelings related to a given subject, and operationally as a set of coherent behaviour patterns; or pragmatically, as a system of feelings which motivates a related set of behaviour patterns” (Berne, 2016b, p.9). Weiss (cited in Berne, 2016b, p.11) describes an ego state as ‘the actually experienced reality of one’s mental and bodily ego with the contents of the lived-through period.’

The ego states are described as the ‘parent’, the ‘adult’ and the ‘child’ as illustrated by Figure 13 and, for abbreviation, denominated ‘PAC’. They represent three parts of the same individual delineating actions and realities. The three ego states as a whole represent the ‘three part ego state model of personality’ (Mountain Associates, no date). The PAC model is based on the principle that the ‘adult’ figure is related to specific attitudes and capabilities assigned to the elements of ‘thinking, feeling and acting’ (Harris and Harris, 1995; Berne, 2016a; Mountain Associates, n. d. and Stewart and Joines, 2012). “The adult maintains an awareness of current information and feelings; the Parent and Child rely instead on scripted, recycled and, therefore in TA terms, inauthentic emotions” (Molesworth et al., 2017, pp.4-5). The analysis of the ego states is able to delineate actors’ ways of thinking. Ego states address real positions occurring in communication and are identified as phenomenological realities. Ego states are representative of a communication analysis which delineate actors’ thoughts over phenomenological realities where propositions and actions translate into reactions (Jayantee, 2006; Corey, 2016; Mountain Associates, no date; Vysledky, 2015; Harris and Harris, 1995; Berne, 2016a; Stewart and Joines, 2012 and Berne, 2016b).

In the context of SMEs' access to credit, this type analysis assumes relevance as it can assist in understanding the thoughts and the related perceptions and positions. In fact, Transactional Analysis connected to the research thematically allows us to discover more comprehensively perceptions through the responses and decisions of SMEs. This analysis, as a 'first-order diagram' (Mountain Associates, no date) would represent a first step in the research towards studying the effectiveness of the communication pattern and, therefore, to recognising the positions and the motives underlining decisions in the application of SMEs' access to credit.

The 'ego states', as already mentioned, are configured into three figures representative of the 'parent', 'adult' and 'child' personalities. They are described by Berne (2016, p.26) as 'physiological phenomena' They are delineated as a "set of related behaviours, thoughts and feelings" (Stewart and Joines, 2012, p.4). The 'parent' represents an authoritative theoretical figure or a concept which describes an individual attitude to be judgmental and prone to posing boundaries. It is a figure which is moulded by external occurrences. The 'adult' represents the rational part of the self and indicates the ability of any individual to act based on reflection and analytical attributes over facts and information. This points towards a proactive personality capable of understanding, through a coherent analysis, the problem and pointing to effective resolutions. The last personality figure is represented by the 'child'. This represent the feelings that any individual has in dealing with events or situations. Here feelings dominate the rational part of an individual (Jayentee, 2006; Hollins Martin, 2011; Berne, 2016 and Stewart and Joines, 2012).

**Figure 13: The PAC – the 'three part ego state model of personality' – of Eric Berne**

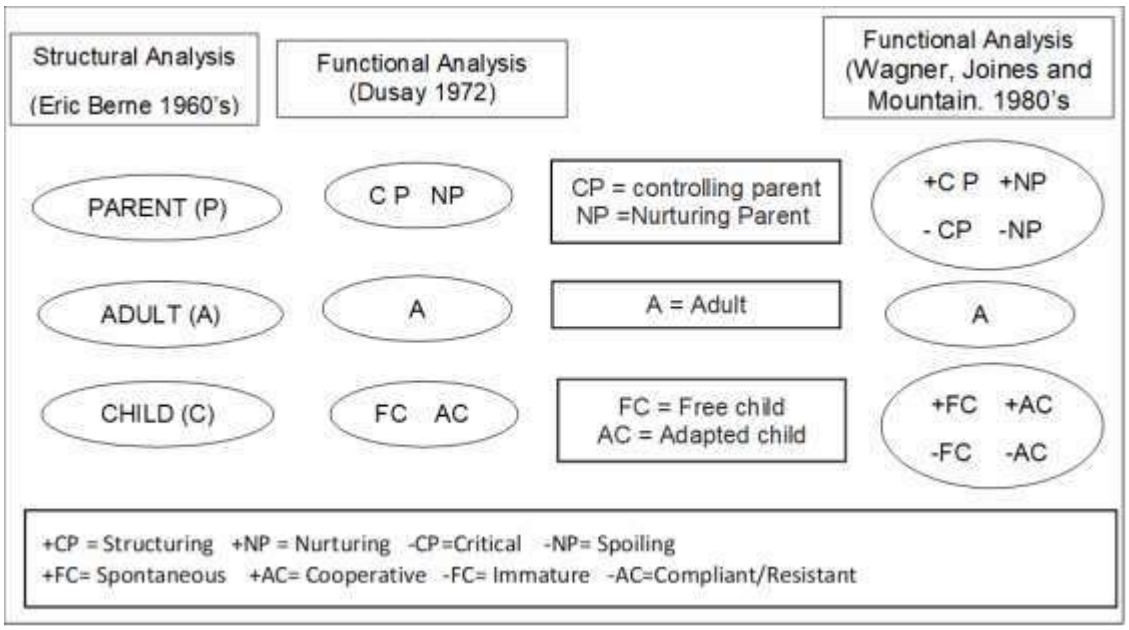



Source: Mountain Associates, no date; Berne, 2016a and Stewart and Jones, 2012

Eric Berne's 'ego states' are developed as a structural analysis. This type of analysis was further elaborated by Dusay (1972 in Williams and Williams, 1980 and in Steiner, 2003) in order to provide supplementary explanations for the concepts of the 'parent' and 'child' ego states. The PAC was, therefore, further subdivided to include two additional figures. The parent and the child were divided into two parts, each to include the controlling and nurturing parent and the free and adapted child respectively (see Figure 14) (Booth, 2007; Hollins Martin, 2011; Jayentee, 2006 and Berne, 2016a). Therefore, whilst a structural analysis represents the components of the ego states and specifically represents the 'structure', a functional ego state mode offers a 'description' of the components parts (Stewart and Joines, 2012). In the 1980s, Wagner divided the PAC further by adding the specifics of positive and negative to the attributes of controlling and nurturing parent and to the free and adapted child. This represents the model applied mostly today (Jayentee, 2006). The controlling parent translates into a

figure which poses limits and is judgemental of reality. These characteristics entail negative actions or responses and an element of preconceptions and preferences. The nurturing parent is a positive figure which is able to provide support. It places priority on contributing effectively to facilitating development and growth. The Free Child represents the child that is in every individual; here intuitiveness and instinctiveness come into play. Trust and being unconcerned about rules are preponderant elements of this ego state. An Adapted Child represents a submissive figure where 'rules and norms' are relevant aspects (Hollins Martin, 2011, p.588 and Stewart and Joines, 2012). The representation of effectiveness and appropriateness in the way of responding to reality assumes the connotations of positive and negative (Stewart and Joines, 2012).

**Figure 14: PAC – ego states: type of structural analysis**

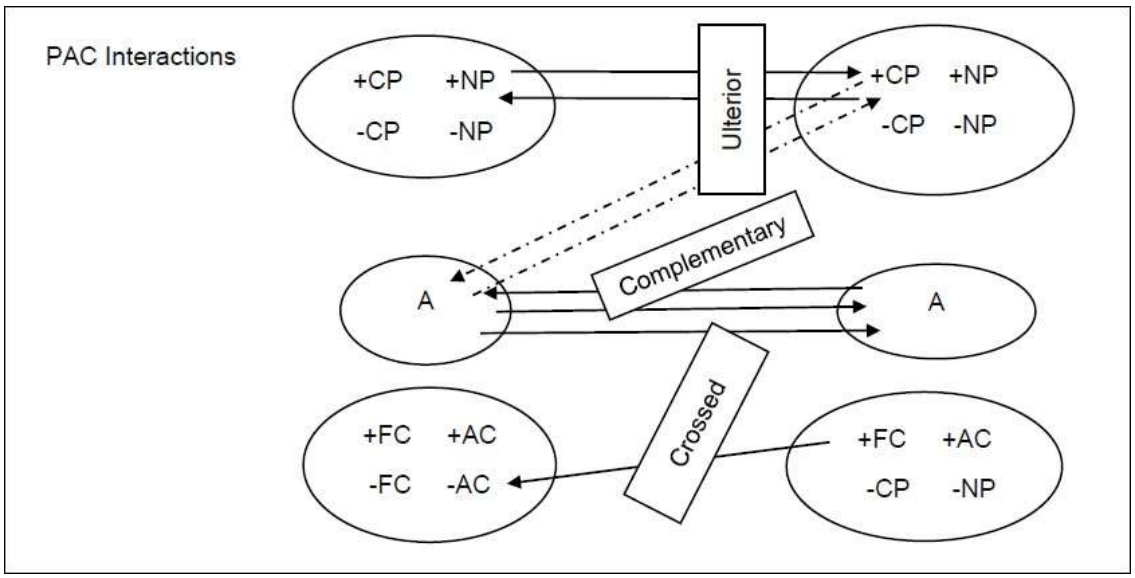



Source: Adapted from Mountain Associates, no date; Kececi and Tasocak, 2009; Booth, 2007, pp.136-137; Jayentee, 2006 and Hollins Martin, 2011

Transactions which are intended as the interaction between ego states are prompted by a stimulus to produce a response. The literature recognises three types of interactions or transactions. These are denominated as 'complementary', 'crossed' and 'ulterior' (Booth, 2007; Hollins Martin, 2011 and Berne, 2016a). A complementary transaction occurs when the direction of the stimulus and the response are between the same ego states. This indicates that the response to

the stimuli is congruous. In a cross transaction, a response to a stimulus does not correspond to expectations; communication is not effective and not appropriate. In fact, the ego state responding is different from the expected one. The response derives from another ego state towards a different status from the sender of the original message. The ulterior communication is complementary but various ego states are engaged. It includes a stimulus and a response where ulterior meanings are included. It is to be underlined that effective transactions occur when the communication is complementary in nature and between positive attributes. Communication is also considered positive if it is complementary and between adult ego states (Jayentee, 2006; Hollins Martin, 2011; Stewart and Joines, 2012; Berne, 2016a; Harris and Harris, 1995 and Stewart and Joines, 2012). Examples of the three type transactions are illustrated in Figure 15.

**Figure 15: Examples of PAC interactions**

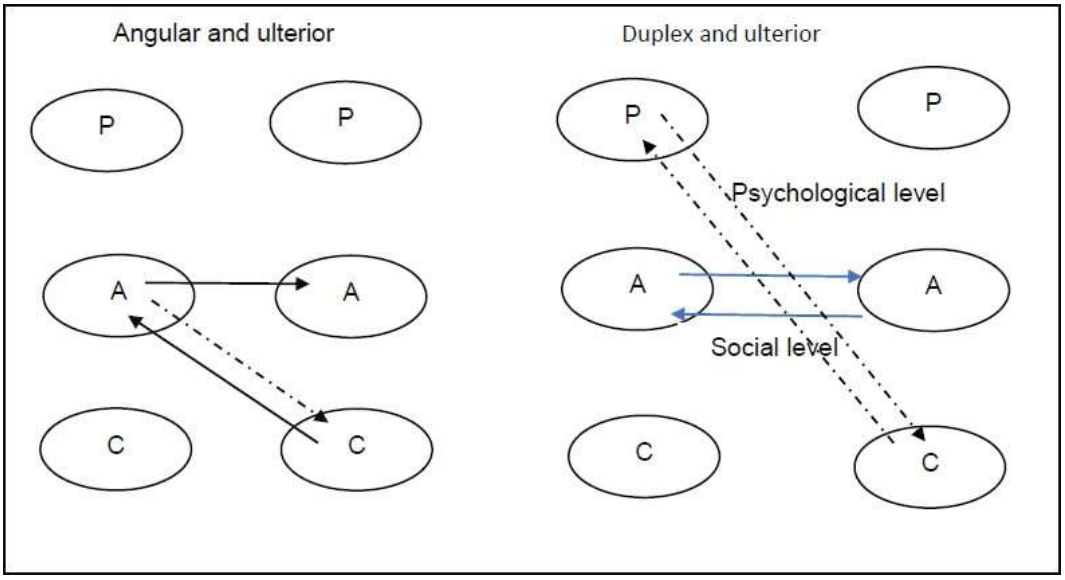



Source: Booth, 2007, pp.136-137; Jayentee, 2006; Hollins Martin, 2011; Berne, 2016a; Harris and Harris, 1995 and Stewart and Joines, 2012

Berne (2016a), with reference to the ulterior communication position, provides a further classification by underlining a social and a psychological message. Furthermore, he recognises two different characteristics of the ‘ulterior’ transaction denominated as ‘angular’ and ‘duplex’. Figure 16 exemplifies this. The social level transaction occurs when empirical facts are at play and involves the interaction between adult positions. The psychological interaction exists when the stimuli and

the response consider abstract elements which arise from perceptions and feelings. It fundamentally involves the interaction between a child and parent ego state and vice versa although a child to child or a parent to parent exchange might occur. It is underlined that the result brought by an action or reaction, where an ulterior interaction arises, denotes a psychological message. An angular transaction occurs when three ego states are at play. A duplex interaction arises when four ego states are involved.

**Figure 16: Ulterior transaction vs. social and psychological level and angular and duplex interaction**




Source: Berne, 2016, p.32 and Stewart and Joines, 2012, pp.70-72

As previously indicated, a transaction is the result of a stimulus and a response. Transactions occur due to what theory defines as ‘strokes’ as ‘units of recognition’ of the stimuli. Strokes assume different connotations. They can be ‘vocal and non-vocal’ and ‘positive or negative and conditional or unconditional’. They, therefore, determine and condition the way individuals react and, therefore, respond to a particular situation (Stewart and Joines, 2012, pp.77-78). At the same time, responses are influenced by systems or preconditioned propositions or ideas formed within the context in which actors operate representative of their ‘life positions’. In Transactional Analysis, this is called ‘script’ which is intended as a ‘plan’ where ideas or beliefs, perceptions, information and the product of external

forces are condensed. These together with strokes affect responses and actions. Scripts can be described through the application of a ‘script matrix’ recognised today as one of the central models for TA analysis (Mountain and Davidson, 2015 and Stewart and Joines, 2012). Research conducted by Mihailovic and Mihailovic (2004 in Molesworth et al., 2017, p.10), on the ‘political economy’, emphasises, through the application of the script matrix, how in this context reality can be explained by ‘capital and globalization as powerful cultural scripts’ (Mihailovic and Mihailovic, 2004). A script matrix can, therefore, be considered the model whereby the message is transferred between ego states to determine decisions and outcomes in the context of reality. Ego states are described as counterinjuntcions, program, injunctions and permissions (Stewart, 1996 and Steward and Joines, 2012). Counterinjunctions occur in parent to parent transactions; they are usually positive and represent a requirement and a direction. A program provides the direction in terms of how the matter should be addressed; they are generally positive and occur between adults’ ego states. Injunctions represent indirect messages whilst permissions delineate authorisations or consents. They are both represented by a child to child transaction (Stewart and Joines, 2012). Scripts can be postulated in the case of SMEs’ access to credit by analysing the phenomena through the formulation of causality (Saldana, 2013) to reflect on decisions (Steward and Joines, 2012) and delineate the outcomes that can address the problem.

The perception and understanding deriving from the ego states analysis identify an individual’s reaction to a proposed course of action. As Mountain Associates (no date) indicates, it is only possible to theorise on the responses by the analysis of actions and responses or on the basis of reactions to occurrences. Ego states can, therefore, be identified by acknowledging four distinctive attributes. These are ‘behavioural’, ‘social messages’, ‘historical messages’ and ‘phenomenological messages’ (Mountain Associates, no date; Hollins Martin, 2011, pp.588-590; and Stewart and Joines, 2012). Messages, for example, are intended as words and expressions and indicate behavioural patterns. Social contexts are able to influence transaction stimuli and responses. Learned lessons are relevant in the context of historical messages and influence communication. The reflection on ego states is considered a phenomenological message and is where perception and

understanding emerge. Berne (2016a, p.33) states that "…the simplest forms of social activity are procedures…". He highlights that a 'procedure' involves different transactions, all complementary and placed in the adult ego state, aimed at controlling and influencing reality. He indicates that reality can be described as 'static' or 'dynamic'. Procedures are divided into two ingredients which are considered relevant in the evaluation. The two ingredients are efficiency and effectiveness. Efficiency is the result of the combination of information and knowledge as these two elements play a relevant role in the decisional process. In agreement with the literature review, relationship lending where convergent elements concur with a dynamic reality, can be considered an effective methodology to favour SMEs' access to credit. Effectiveness is deemed material as it indicates the quality of outcomes through perceptions and reactions. This research aims to understand effectiveness in terms of SMEs' access to credit (Berne, 2016a).

On the basis of the exposed assumptions, the research topic can be reconciled to the above notions. In a behavioural sense, messages are derived from survey responses directed to SMEs and other sources data analysis as illustrated by the methodological chapter. The social message is on the basis of the context in which SMEs' access to credit is analysed which primarily stems from the financial crisis and banking liquidity allocation. From an historical perspective, the relevant elements to be considered are the attitudes, the expectations and the decisions deriving from experience in terms of accessing credit and on the willingness to lend. In this context, the financial crisis and the risk factor play an important role. The phenomenological message derived from reflection on SMEs' and banks' perspectives, is revisited through primary data on the basis of an SME survey and on data analysis. The following figure (Figure 17) illustrates the distinctive attributes which are relevant to understanding the ego state message.

**Figure 17: Ego states – distinctive attributes**

| Attributes | Ego states messages (Berne, 1961) | Research |
|---|---|---|
| Behavioural message | Messages – words, expressions, voice, bodily posture | Messages through a survey response and other sources for data analysis (as explored and explained by methodology and data chapter – Chapter Three) |
| Social message | Social context can affect particular stimulus and responses | Context of lending with an emphasis on SMEs' access to lending (relevant internal environment in this case intended as the bank and SME and external environment as the dynamics surrounding access to credit (eg. European rules on credit allocation – risk coverage–, financial crisis) |
| Historical message | Learned lessons can affect the ego state | SMEs' and banks' attitudes, expectations and decisions derived from past experience in accessing credit and on the willingness to lend (stemming from the SME survey and the recent financial crisis and internal factors like risk) |
| Phenomenological message | Reflection on ego states towards perception and understanding | SMEs' and banks' perspectives revisited through data analysis |
| Source: Adapted from Hollins Martin, 2011, pp. 588-590; Stewart and Joines, 2012 and Mountain Associates, no date | | |

To facilitate the allocation of the ego state, Williams and Williams (1980) developed a sub-scale of the 'adjective check list' (ACL). Figure 18 below is based on the allocation of 'adjectives' built to determine those characteristics which can be attributed to different ego states.

**Figure 18: Replicates sub-scale of the 'adjective check list' (ACL)**

Adjectives Strongly Associated with Particular Ego States

| Critical Parent | Nurturing Parent | Adult | Free Child | Adapted Child |
|---|---|---|---|---|
| autocratic | affectionate | alert | adventurous | anxious |
| bossy | considerate | capable | affectionate | apathetic |
| demanding | forgiving | clear-thinking | artistic | argumentative |
| dominant | generous | efficient | energetic | arrogant |
| fault finding | gentle | fair-minded | enthusiastic | awkward |
| forceful | helpful | logical | excitable | complaining |
| intolerant | kind | methodical | humorous | confused |
| nagging | praising | organized | imaginative | defensive |
| opinionated | sympathetic | precise | natural | dependent |
| prejudiced | tolerant | rational | pleasure-seeking | hurried |
| rigid | understanding | realistic | sexy | inhibited |
| severe | unselfish | reasonable | spontaneous | moody |
| stern | warm | unemotional | uninhibited | nervous |

Source: Williams and Williams, 1980, p.124

Berne's ego states represent the foundation of Transactional Analysis. The theory has evolved into a 'Second structural model of ego-states'. Franklin Ernst, in 1971, introduced the 'OK Corral'. The model is based on Eric Berne's ego states but it is further developed to account for effective and ineffective aspects of responses to reality. The 'OK Corral' model is a decisional model, based on the principle of 'I am OK you're OK'. It indicates 'life position' in respect to reality. It is based on the concept of OKness as the position of 'I am OK you're OK' being regarded as the optimum status (Mountain Associates, no date; Mountain and Davidson, 2015 and Stewart and Joines, 2012).

The OK Corral mode, as already underlined, describes 'life positions' specifically, the ego states allocation in relation to four statuses or dimensions. It assists in explaining and defining decisions. The life positions, indicators of the understanding of the world and derived behaviours, are a way to analyse perceptions, opinions and perspectives, by considering not only 'me' as a single individual but also 'me and you' in a multi-dimensional view of reality. From these inferences, the concept of 'OKness' is derived. "Okness is about relationship and connections" (Mountains and Davidson, 2015, p.20). These dimensions are shown in Figure 19. The first and positive dimension is the 'I am OK you are OK' position, representing the optimum status allocated, in the Adult to Adult ego state where

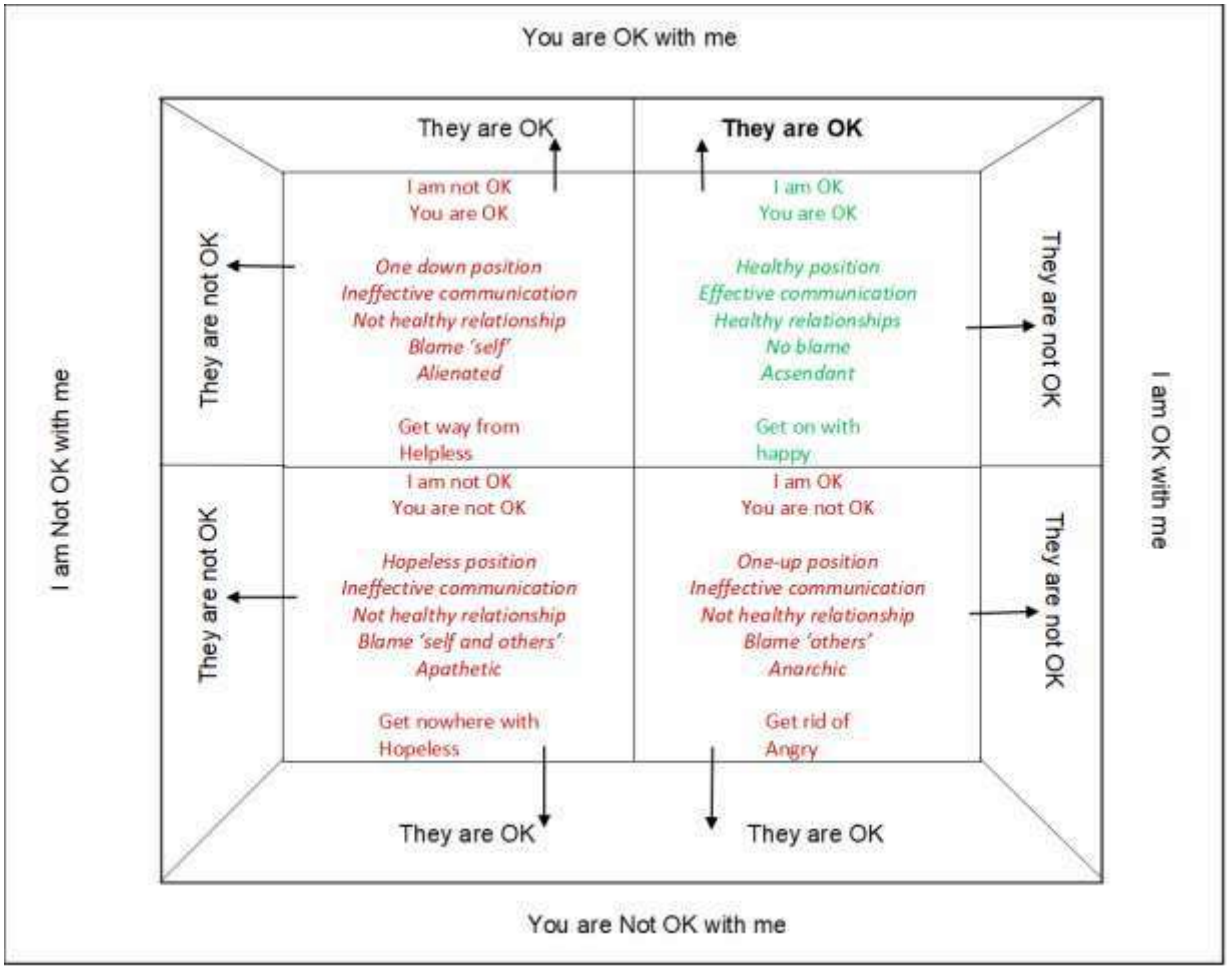
stimuli and response are complementary and commensurate, where the interaction produces positive results and where the reality is accepted. At the opposite scale there is the ‘I am not OK you are not OK’ where communication is broken, represented by a cross communication. In this dimension of life position, actors’ thoughts or reality are not aligned, misunderstandings are created, solutions are difficult to define. This life position does not act as a basis for the realisation of objectives or agreements over facts and realities as responses to the stimuli correspond to a wrong understanding or to a negative perception and response. The position ‘I am not Ok you are OK’ is, according to Harris and Harris (1995) ascribable to the child notion specifically to the childhood period. It postulates that an individual is confused about reality and collocates him/herself in a situation of dependency and adaptation. In a ‘I am Ok you are not Ok’, the ‘me’ individual feels on an upper-level scale in relation to others as, without his/her input on matters, he/she feels resolutions to problems cannot be achieved. In this case, therefore, stimuli and responses are not achieved as convergence is not possible and proposed objectives and purposes are not finalised. It is relevant to underline that in all life positions, with the exception of ‘I am Ok you are Ok’, ‘stroking’ plays a relevant role in the interactions. According to Steiner and to Berne scholars (cited by Steward and Joines, 2012, p.122) ‘scripts’ as the ‘plan’ posed by the ego state are defined by the assumed life position. According to Steiner (cited in Steward and Joines, 2012, p.122), decisions follow the script which is postulated by the life position. The OK Corral model of Okness has been further developed in a three-dimensional mode to include eight life positions. This extended model considers the dynamics deriving from the interplay between the agent and the respondent and takes into account other entities to consider the ‘social context’ (Harris and Harris, 1995; Steiner and Joines, 2012 and Mountain and Davidson, 2015).

A relevant factor is that OKness, therefore, considers the environment which can affect one’s behaviour, reactions and responses. Responses and actions affect and are affected by the outside world. Therefore, it can be said that the environment influences and provide inputs which can affect stimuli and responses (Mountain and Davidson, 2015). The combination of effectiveness, quality and attention to control are summarised and denominated as ‘ascendant’ and play an

important role in the total quality of the relationship. This is a positive attribute corresponding to the ‘I am OK you’re OK’ position. The ‘alienated’, ‘apathetic’ and ‘anarchic’ characteristics indicate negative connotations. These indicate restricted control, obligations to follow rules or no orientation towards practices (Wickers 1995 in Mountain and Davidson, 2015, p.21). Therefore, the inference that can be drawn is that an effective communication pattern concurs with a favourable action and reaction which is congruent and can match the needs of both sender and receiver or of the agent and the respondent. In the context of the research, this would translate into effectiveness in favouring SMEs’ access to credit through a methodology or methodologies for lending to consider constraining elements like opacity and insufficient information, size, age, sector, distance. These are, in fact, factors that may increase total cost of credit and sanction adverse selection. All the mentioned elements are recognised by the literature as obstacles to liquidity allocation. Risk, as a form of control, needs to be considered in the dynamics which may regulate responses and actions.

The OK Corral model can be linked to the ‘Blame diagram’ realised by Jim Davis (cited in Mountains and Davidson, 2015, p.13). This can be a useful complementing instrument to define blame allocation based on perceptions following reactions and on actions as analysed by the life positions model. The diagram draws blames according to four assumptions. These are blames on ‘self’, ‘others’, self and others’ and ‘neither’ as the problem does not subsist or no longer subsists (Mountain and Davidson, 2015, p.14).

**Figure 19: The three-dimension OK Corral of OKness – Ernst 1971**




Source: Mountain Associates, no date and Mountain and Davidson, 2015

### 2.5.4 Contract in Transactional Analysis

Contracting is not the focus of this research; however, it is an aspect that cannot be left totally unexplored by virtue of the enquiry which is to explore those phenomena which may affect SMEs' access to credit. Indeed, within the evaluation process for credit, contracts represent the final objective of the communication between different actors. It assumes relevance in achieving the proposed aim which is to reach a satisfactory agreement taking into consideration

the needs of all involved (Mountain and Davidson, 2015). In the light of the above consideration, contracts are briefly outlined and contextualised.

Mountain and Davidson (2015, p.81) define a contract as an “openly made agreement to commit to a specific action or outcome, which involves all the people who will contribute to making it happen”; therefore, to follow Berne’s idea it involves “an explicit commitment to a well-defined course of action” (cited in Stewart and Joines, 2012). According to Stewart (1996 in Hay, 2017, p.16), a contract is a process aimed at achieving a future objective. A relevant aspect is that the contract in Transactional Analysis can be achieved in an ‘OK’ life position corresponding to ‘I am OK you’re OK’ (Stewart and Joines, 2012).

In the process leading to a contract, communication as a decisional mode plays a relevant role. In the context of SMEs’ access to credit, banks and firms enter into a connection. Information requirements, like hard and/or soft information, are demanded by banks and applicable interests, costs of credit and collateral requirements are considered by SMEs in the decision about credit application. Communication to indicate behaviours, actions and reactions is, therefore, deemed relevant.

“The term ‘contracting’ in the context of communication is not clearly defined yet, and does not normally refer to the Psychological Contract” but it refers to a tangible contract as prescribed by the Transactional Analysis. A contract, in fact, to be effective, should respond to the attributes of measurability, manageability and motivation (Businessballs, 2012, no page and Mountains Associates, no date).

‘Contracting’ applied to a psychological contract indicates the perception of mutual expectation, implicit of an agreement taking into account the communication and the understanding between actors as prescribed by Transactional Analysis theory. The psychological contract theory delineates the concepts of trust, relationship and understanding which differs from a tangible document (Businessballs, 2012; Levinson et al., 1962 in Yang and Yang, 2010; Rousseau, 1990; Llewellyn, 2001; Haggard and Turban, 2012 and Kingshott and Pecotich, 2007). An extension of the psychological contract within the Transactional Analysis application for

communication analytic structure, to combine the two concepts, could provide meaningful information and vision on the relationship in qualitative terms (Businessballs, 2012). Psychological contracts mainly apply in the context of the organisation as an understanding, often unwritten or formally written, between employees and management (French et al., 2011; Schein, 1980 in Yang and Yang 1980; Rousseau, 1990 and Yang and Yang, 2010). Yang and Yang (2010) citing Roehling (1997) delineate how a psychological contract can be applied to any context where relationships are representative of the decisional process.

Research starts to apply psychological contract to different contexts other than contracts in the workplace. Examples can be found in the studies conducted by Yang and Yang (2010) and Yang and Fu (2013) who started to enquire into psychological contracts in the context of banks' and customers' relational aspects. Yang and Yang's (2010, p.317) study attempts to fill a gap in the literature by enquiring into the dimensions, in the 'psychology covenant model', that occurs between business services and customers to understand whether there exists a structure within the psychological contract for these sectors. Yang and Fu (2013) attempt to address the issue by focusing on 'banks and credit customers'. Their findings suggest that the representative dimensions that characterise the psychological contract in a bank and customer communication is ascribable to the relational psychological contract and the transactional psychological contract both connotations of the psychological contract (Yang and Fu, 2013, p.3431).

Transactional psychological contract and relational psychological contract differ in terms of time orientation and interaction. In the context of the research, the two dimensions can be associated with the two methodologies for lending described by the literature as transactional and relationship lending. Psychological contracts can, in fact, affect the elements which represent the connotation of both transactional and relational lending techniques applied to decisional processes for SMEs' access to credit. Figure 20 provides a brief description and attempts to provide a correlation between these aspects.

**Figure 20: Transactional psychological contract and relational psychological contract and the correlation to the research**

| **Transactional psychological contract** | **Relational psychological contract** |
|---|---|
| Short-term reward | 'Social-emotional bonds' – long term, significant and substantial |
| Material interaction | Dynamic |
| Financial interaction | Flexible |
| **Transactional lending** | **Relationship lending** |
| One-off transaction | Long term interactions – subjective, extensive knowledge |
| Based on objectivity | Dynamic |
| Based on hard information | Flexible |

Source: adapted from Wu and Zhang, 2013 and Yang and Yang, 2010

Yang and Yang's (2010) work considers the aspect of customer relationship management (CRM) by highlighting that the two dimensions of transactional and relational psychological contracts are deemed relevant to the concept of CRM where value and quality are dominant features (eg. Payne, 2005) and where efficient and effective communication concur to deliver services apt to satisfy customers' needs. Therefore, it could be reasoned that communication is relevant to determine quality and occurrence causality in a dimension where transactional and relational psychological contract concur to determine the final aim which, in the context of the research, would correspond to understanding cause and outcome and/or influences and affects (Saldana, 2013) connected to the subject of enquiry. The research does not wish to enquire into contracts but the perceptions surrounding reality and specifically SMEs' constructs related to access to credit.

The discussed aspects, underlined by the Transactional Analysis theory, can be related to the research topic to provide a theoretical contribution. In fact, Transactional Analysis, by drawing on its models, can assist in exploring the theme proposed by this research under a different lens. The theory application can underline the dynamics of the interactions between different actors (Corey, 2012). An interactional perspective can emphasise the transactions which have to occur in the context of SMEs' access to credit. The concepts surrounding a contractual

agreement, on the other hand, assume relevance as changes and adjustments should occur to create an environment and a suitable context for credit allocation.

A conceptual framework where TA is the theoretical lens is, therefore, drawn up and presented in the next section.

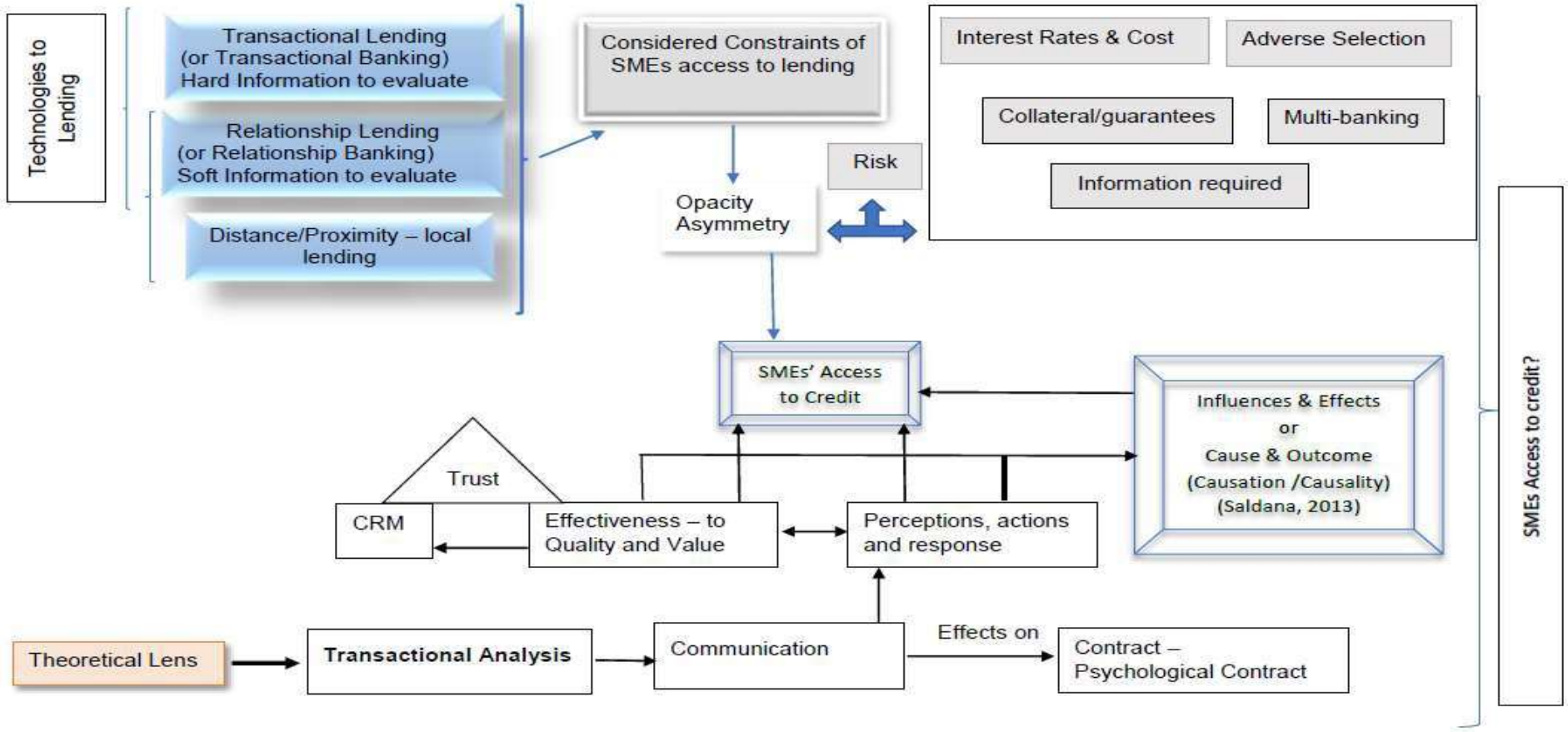
## 2.6 The conceptual framework and a synopsis of representative scholarly work

Sharon et al. (2012, p.88) describe a conceptual framework as ‘a structure that organizes the currents of thoughts that provide focus and direction to an inquiry. It is the organization of ideas – the central concepts from theory: key findings from research, policy statements, professional wisdom – that will guide the project.’ Miles, Huberman and Saldana (2014) highlight that a conceptual framework is the representation of the interplays that occur between elements, occurrences, assumptions, ideas and the connection to a theoretical lens (Sharon et al., 2012; Grant and Osanloo, 2014 and Miles, Huberman and Saldana, 2014).

The conceptual framework that is to guide the research is therein proposed by Figure 21. The conceptual framework shows the relationship to the literature review in terms of key selected elements previously underlined and presented and the link to the theoretical lens as they are inherently linked.

In the context of the literature reviewed conducted by this research, it appears relevant to provide a synopsis of considered representative scholars which is presented in Appendix A.

**Figure 21: Conceptual framework to include Transactional Analysis as the theoretical lens to guide the study**



## 2.7 Gaps and questions

“By means of a theory testing or a theory extension approaches new knowledge is created” and “interpretations can lead to either theory building or theory testing” (Dissanayake, 2013, p.1) In the context of this research, theory building is applied towards ‘theory extension’ (Dissanayake, 2013, p.2) to accompany a predominant qualitative methodology in understanding the phenomena and occurrences, as fully explained by the methodology and data chapter.

Following reflection on the review of the literature, two gaps are identified. The conceptual framework, shown in the previous section, can assist in formulating the research questions (Miles and Huberman, 2014). To focus on and address the identified gaps and provide an idiosyncratic perspective of the phenomena under consideration, the research on SMEs’ access to credit focuses on three elements summarised as the ‘elements of SME lending’, ‘approaches to lending’ and ‘local lending’. The identified gaps, the questions to be addressed and to enquire into the proposed constituents of interest together with the contribution to knowledge are fully delineated by Figure 22.

**Figure 22: Identified gaps, questions and contribution to knowledge**

| GAPs and explanation | Questions to address gaps | Contribution to knowledge (theory) – brief outline of strategy |
|---|---|---|
| **(Gap one)**<br>“Previous researchers had focused on assessing relationship quality between the banks and their customers but have neglected to determine the quality of relationship in the context of lending between the banks and their SME borrowing’ customers.’”(Retap et al., 2016, pp.408-409) | **Phase One – Based on SMEs perspectives (survey):**<br>Q1: What is the type of finance on which SMEs depends?<br>Q2: What are the types of activities to which finance is assigned?<br>Q3: Does access to credit represent a problem?<br>Q4: Is loan-type credit relevant?<br>Q5: Do SMEs rely on bank loans and through which type of institutions? | Application of **Transactional Analysis** in the context of SMEs’ access to credit.<br><br>**Transactional Analysis** can provide a novel basis to explore the problem of SMEs’ access to credit and to delineate an alternative perspective on the complexities linked to this topic. It can provide a new perspective and add to knowledge.<br><br>Continue on next page |

| | | |
|---|---|---|
| This suggests a 'theory application void', whereby new and/or alternative understanding can be created adding to the debate (Muller-Block and Kranz, 2015, p.8)<br><br>Therefore, by building on the idea and quality orientation considered by Retap et al. (2016), communication effectiveness is recognised as a pertinent element of enquiry to understand the phenomena though a different perspective.<br><br>The communication aspect is considered a relevant instrument to channel information of different kinds (Mohr et al., 1996 in Retap et al., 2016) between parties and it is, therefore, an influencing factor in generating effects and results.<br><br>The aim is to enquire, in qualitative terms, on these recognised constraining elements which characterise SMEs' access to lending, through a causality analysis to link the cause and the outcome and/or influences and effects (Saldana, 2013) brought about by the phenomenon. | Q6: What type of information is required to access credit?<br>Q7: How rigorous are banks on information required?<br>Q12: Are SMEs aware of European Union promotion of applications for credit type loans?<br>Q13: What are the main recognised problems linked to access to credit?<br><br>**Phase Two – Based on banks (bank lending survey) and other bodies' results and SME perspective (survey):**<br>Q14: What elements might hinder liquidity availability and willingness to lend to SMEs?<br>Q15: What are the characterising elements in SME lending?<br>Q16: What are the elements which might affect banks' distribution and SME lending?<br><br>**Phase Three** – **Communication effectiveness (based on phase one and two results):**<br>Q17: How effective is communication between banks and SMEs? How effective is communication between European institutions and SMEs?<br><br>**Phase Four** – **Causality (based on phase one, two and three results):**<br>Q18: What are the effects on SMEs' access to credit? | **Communication** affects value which influences quality and trust with reference to the object of the research, that is to understand causality in cause and outcome and/or influence and its effects linked to SMEs' access to credit.<br><br>**Communication** is therefore the considered factor in determining effectiveness.<br><br>**Causality**, as qualitative analysis to understand a cause and effect relationship, is affective in determining occurrences. The methodology and data chapter will provide further explanation about this method analysis. |
| **(Gap two)**<br>There appears to be a different opinion and, therefore, not a univocal view among scholars about | **Phase One** – **Based on SMEs' perspectives (survey):**<br>Q8: Do SMEs have a bank relationship?<br>Q9: What is the opinion on the relationship? | Drawing on the Transactional Analysis models to then define causality – cause and outcome and/or influence<br><br>Continue on next page |

| | | |
|---|---|---|
| the application of lending technologies and their possible combination in the assessment of SMEs. Although the complementary application is, at times, contemplated, the prevalence of a mutual exclusion is considered the more probable of the two alternatives proposed by transactional lending and relationship lending (Bartoli et al., 2013a; Fredriksson and Moro, 2014; Udell, 2008 and Levine, 2002).<br><br>This suggest a "contradictory evidence" whereby the evidence can either validate or contradict one of the two views adding to the debate (Muller-Block and Kranz, 2015 p.8)<br><br>The objective is to provide further evidence, through a different lens, to understand whether SMEs might be more effectively served by applying one of the two types of lending technology (transactional lending or relationship lending) or by their mutual integration. | Q10: What type of relationship do SMEs favour (multi-banking or relationship building)?<br>Q11: What is the perception about the effects of a relationship lending application on loan costs and terms?<br>Q13: What are the biggest recognised problems linked to access to credit?<br><br>**Phase Two – Based on Phase one and on an excursus on approaches to lending** (three country comparison with different approaches to lending):<br>Q19: What elements direct banks towards the choice of an approach to lending?<br>Q20: What is the perspective and the opinion of SMEs in terms of elements effecting access to credit?<br>Q21: What lending technologies are applied in Italy?<br>Q22: What are actors' thoughts over the two phenomenological realities?<br><br>**Phase Three (local lending):**<br>Q23: What type of lending is most representative?<br>Q24: What is the importance assigned to lending?<br>Q25: What are the types of banks through which SMEs apply for loans and micro-lending?<br>Q26: What elements are identified and addressed?<br>Q27: What are the effects on SMEs' access to credit?<br><br>**Phase Four – Based on Phases one, two and three:**<br>Q28: What is the most effective lending technology that can serve SMEs? | and affects – and therefore uncover causality.<br><br>To uncover whether lending technology might be more effective as a complementary instrument or whether its single application is more effective.<br>1 -PAC analysis based on SMEs' perceptions and opinions.<br>2 - Causality, as qualitative analysis to understand cause and effect relationship, and whether it is effective in determining occurrences.<br><br>The contribution is by building on the concepts of quality and trust - to enquire into elements by delineating a causality analysis to link the cause and the outcome and/or influences and affects (Saldana, 2013). This aims to add a scholarly discourse to lending technologies applications<br><br>A comparative study is conducted to assist in understanding the applicability of lending methodologies. This further contributes to building on cross-country data.<br><br>Continue on next page |

| | | |
|---|---|---|
| | Q29: What is the lending technology that might best address actors' mutual satisfaction? | |

## 2.8 Chapter summary

This section brings together the main themes to address those key representative and considered aspects of SMEs' access to lending. Figure 23 offers an outline of the constituents to underline positive and critical elements and to provide a perspective on relevant aspects of SMEs' access to credit.

The importance of liquidity allocation to influence SMEs' lifecycles is relevant to their ability to invest in order to innovate and grow. Extant research highlights that bank availability is influenced by recessive periods as the risk to lending is enhanced. The possible exclusion of SMEs from credit gives rise to the financing gap. The literature indicates two types of approaches to lending. These are relationship lending and transactional lending options. Distinctive characteristics are drawn and attributed to the two mentioned approaches. The assessments are based on hard or soft information, gathered by different processes and data magnitude. The objective is risk aversion in the case of transactional lending or risk control in a relationship lending approach.

In a relationship lending approach, the assessment is based on the acquisition of the clients' and external environment knowledge, based on the expertise of screening, evaluation and monitoring to address the elements of opacity and asymmetry, which hinder SMEs' access to credit. This mitigates the adverse selection as the assessment of SMEs' access to credit is subjective as discretion is exercised. The evaluation process is enhanced by the proximity element, offered by a local lending activity promoted by decentralised banking systems and synergies between different local actors. Costs of credit, interest rates, ratings and collaterals affect credit allocation, although this lending technology application is generally favourable in terms of addressing those types of constraints.

In contrast, in a transactional lending approach, the process for SMEs' access to credit is based on an objective assessment of hard data based on financial statements, market ratings, credit scoring and other capital means. The opacity element, enhanced by the asymmetry of information, is ascribable to the inability to provide external market ratings and financial statutory information related to creditworthiness. Age, size and manufacturing and constructing sectors as innovative businesses are adverse elements of credit allocation as risk is emphasised. Cost of lending is, however, best addressed by a transactional approach, as information is readily available, quantifiable and easily transferable.

Relationship lending can provide, through information management, the basis for customer value to yield product differentiation and different services. Customer relationship between the bank and SMEs built on *v*alue creation aims at mutual dependency and reciprocal satisfaction. This might be enhanced by the elements of value and trust through effective communication. Although different views are presented, SMEs could generally benefit from a mitigation of the cost of credit and interest rate levels. In the case of banks, there can be a mitigation of the multi-banking aspect which arises from a relationship lending approach, a possible increase in client retention, promoted by loyalty building, and profit generation. The objective of local lending, enhanced by relationship lending, led by a high degree of synergic action, due to the interaction of different actors at local, regional and national levels, can provide a potential to invest, innovate and specialise. SMEs' access to credit is, in fact, relevant to economic development and growth, orientated to wealth creation.

A theoretical lens has been identified in the Transactional Analysis. This is to guide the empirical investigation as it is believed it can assist in reviewing quality as a constituent of communication effectiveness through responses and/or actions motivated by perceptions and direct and indirect effects on reality. Trust and value represent the basis of quality of information and relationship or correlation. Prerequisites and conditions affect reactions and actions over the reality. Transactional Analysis is a theory which embraces the notions of communication, perceptions and actions. It, therefore, can lend itself, by drawing on different models, to enquiry into the problem that this research proposes to explore. Trust is recognised as an idiosyncratic constituent of Customer Relationship Management (CRM) which is linked to the quality and value elements.

The conceptual framework, as shown in this chapter, takes into consideration the drawn emerging elements as parameters to be considered in conjunction with the theoretical lens principles, and notions.

The following chapter delineates the methodology and data application for this research and the associated paradigms to guide the study towards its purpose, methods, strategies, data collection and analysis to enquire into SMEs' access to credit and to address the presented questions.

**Figure 23: Lending approaches compared and linked to proximity and elements of lending – critical and positive aspects of the analytical perspectives**

| Literature emerging elements | Relationship lending | Transactional lending | Perspectives on and aspects of SMEs' access to credit |
|---|---|---|---|
| ***Opaqueness issue*** Factors: size, age, sector (construction, manufacturing sector to innovation)<br>***Subjectivity*** (discretion)<br>***Objectivity***<br>***Information*** Asymmetries: element of proximity<br>***Adverse selection environment*** knowledge<br>**Expertise screen-evaluate-monitor**<br>***Hold-up problem*** (captured-in or informationally captured)<br>***Cost element*** link to screening, evaluating, monitoring processes | X<br>X<br>X<br>X<br>X<br>X<br>X<br>X | X<br>X<br>X<br>X<br>X<br>X<br>X<br>X | **Relationships lending:** addresses the 'opacity element' as the assessment on credit is based on three important elements:<br>**1 –** subjectivity<br>**2 –** environment knowledge enhanced by proximity offered by local lending promoted by synergies between actors (businesses and interrelated constituents) which facilitate the process linked to the assessment and evaluation<br>**3 –** high degree of specialisation in gathering 'soft type' information is an important constituent of the monitoring process. Link to information management – holistic assessment<br>**4 –** risk can be effectively addressed by a valuable assessment of potential credit clients<br>Continued on next page |
| Green = Positive Effects Red = Restraining Force | | | |

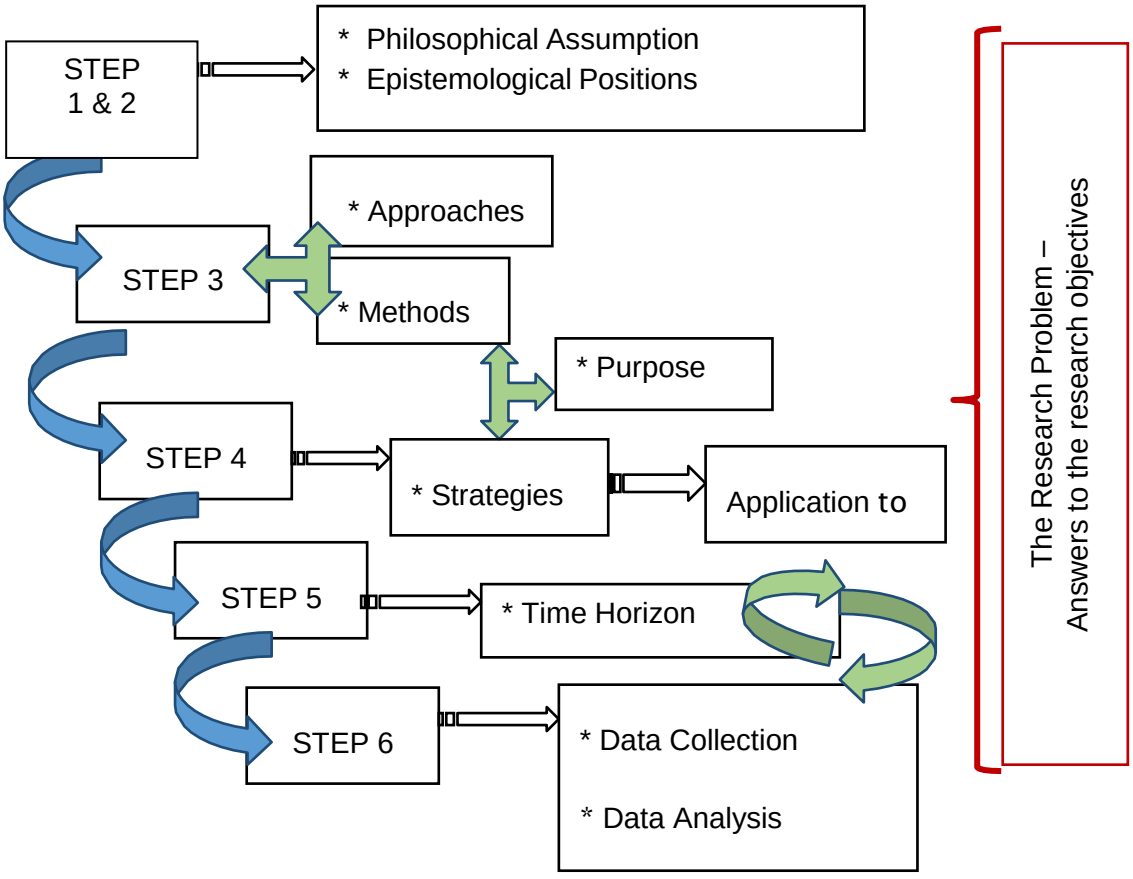
| Literature emerging elements | Relationship lending | Transactional lending | Perspective on and aspects of SMEs' access to credit |
|---|---|---|---|
| | | | **5 –** cost of lending – linked to the assessment and monitoring process is an issue to be addressed<br>**6** – cost of credit, interest rates, collateral, different services linked to customer value |
| ***Information*** quantifiable / transferable<br>***Assessment*** on financial statements, external ratings, credit scoring<br>***Risk*** (for banks) | X<br>X<br>X (but cost & subjectivity element) | X<br>X<br>X | **Transactional lending** using 'hard type data' addresses two important elements:<br>**1 –** cost linked to the assessment and monitoring process as information is readily available, easily quantifiable and transferable<br>**2 -** risk linked to subjectivity is addressed<br>**3 –** The 'opacity' elements remain an important issue as SMEs find it difficult to provide hard-type information |
| ***Elements*** | ***Enhancing Aspects*** | ***Characteristics*** | ***Perspective on and aspects of SMEs' access to credit*** |
| ***Value*** = *Quality*<br>***Trust*** | Communication<br>Communication | Favours opacity & addresses asymmetry<br>Favours opacity & addresses asymmetry<br>Cost of credit | **CRM - Customer relationship between bank and SMEs towards value creation:**<br>* Mutual dependency to reciprocal satisfaction (eg; risk, costs of credit, collateral, customer retention)<br>* Quality of services<br>* Quality of information<br>Enhancing elements; value & trust strengthened by effective communication |
| Green = Positive Effects Red = Restraining Force | | | |

# Chapter 3: Methodology and Data

## 3.1 Introduction

This chapter is intended to illustrate the philosophical assumptions and the research paradigm as drivers of the research design in terms of approaches, purpose and strategies. Reflective perspectives and standpoints influence aspects of the researcher's positions and approaches. In fact, the researcher's position in terms of philosophical stance is a deterministic element in shaping the study approaches. The research approach is to guide towards strategies, the type of data to be collected and subsequent analysis (Saunders et al., 2007). The different phases of the research process are illustrated in Figure 24.

**Figure 24: Steps of the research**




Source: Adapted from Saunders et al., 2007

This chapter is structured as follows. In the first place, philosophical assumptions and epistemological positions, as interrelated elements, are represented and the researcher's position on the philosophical standpoints is, therefore, explained. Approaches and methods, applicable to the study, are explained. This is to be followed by the considerations of the study's purpose and the strategy application. The time horizon, as an important element for data collection evaluation influencing both strategy and data collection, is illustrated. Data collection and data analysis, to build theory and answer the research objectives, are, therefore, considered. Conclusions are drawn to summarise the phases which define the research design.

According to Allard-Poesi and Maréchal (2001, p.38), 'the research problem is a key element to the research process' and 'it is through the research problem that researchers study aspects of the reality they hope to discover, or attempt to develop an understanding of the reality'. Through an understanding of the research problem, objectives are defined and the choice of epistemological assumptions is formulated (Saunders et al., 2007 and Allard-Poesi and Maréchal (2001, p.41). The research problem is to understand elements which affect SMEs' access to credit and, effectively, to uncover those occurrences that might have an impact on lending activities. Through attentive reflection, research objectives are formulated, as illustrated in Figure 25. This study's objectives are to focus on those aspects of lending which might hinder or enhance SMEs' access to credit. A focus is placed on local lending and the possible effectiveness or inefficiencies affecting SMEs' credit access. Also, the study concentrates on investigating the application of approaches to lending and their possible impact.

**Figure 25: The research problem and objectives**

| The research problem |
| --- |
| Understanding elements affecting SMEs' access to credit<br>(Occurrences which might impact on SMEs' access to credit) |
| The research aim |
| 'SMEs' perspective and a critical review of access to credit' |
| The research objectives:<br>(Research orientated to addressing the issues of lending to SMEs) |
| 1. Aspects hindering SMEs' access to credit.<br>2. Elements constraining banks' liquidity allocation to SMEs.<br>3. Banks' application of approaches to lending to SMEs.<br>4. Local lending effects on SMEs' access to credit. |

The research problem and set objectives influence elements of the choice of paradigms and affect the research design. The next three sections are, therefore, intended to briefly illustrate both the philosophical assumptions and the epistemological positions and to provide information on the researcher's reflections as they apply to this study.

## 3.2 Philosophical assumptions

The literature identifies subjectivism and objectivism as the two philosophical assumptions to form the basis of the research design and process. Objectivism considers reality as 'existing' independently from the perception of actors (see Gill and Johnson, 2010 and Saunders et al., 2009). Conversely, in the subjectivism assumption, reality is interrelated to the perception of actors. Actors' interactions and actions influence factors of the social phenomena (see Saunders et al., 2012). These two elements are, therefore, correlated to the view of reality or ontological position and to the representation of knowledge or epistemological stance.

Epistemological assumptions are interrelated to ontological stances and to axiology postures. While epistemology influences the research paradigm in relation to knowledge development, ontology is concerned with the way reality is viewed and the assumptions with respect to the understanding of the world (see Saunders et al., 2012). Axiology indicates research value positions in the research process. The level of independency posed by the researcher is deterministic. An objective stance implies a distance from reality. In contrast, a subjective orientation to the research signifies that the researcher is affected by the phenomena being investigated (see Saunders et al., 2012).

## 3.3 Epistemological positions

The epistemological approach to the research reflects the vision of the world and regulates the paradigm position to posit the most appropriate research process to study reality and develop knowledge. It influences the research design in terms of strategy and its links to methods application, to define data collection techniques and data analysis approaches (Blaxter et al., 2010; Girod-Sèville and Perret, 2001, p. 13; Saunders et al., 2012). Two contrasting epistemological assumptions considered for this research, applied to management research studies (Saunders

et al., 2009), are the interpretative and positivistic stances. This section briefly outlines the main concepts surrounding the two paradigms considered for this research. These concepts represent the foundations of the next section on posed considerations to highlight the researcher's philosophical assumption and position as interlinking elements. Figure 26 provides a synopsis of philosophical positions and associated assumptions.

To best distinguish, the interpretative stance or phenomenological approach is correlated to understanding the significance of social actors' perceptions and actions. In fact, the motivations and intentions that regulate the status of things are relevant postures. Knowledge is built through the interaction of the researcher with the subject to be studied. For this reason, this stance is subjective in nature, socially constructed and open to interpretation. An empathetic stance is assumed towards knowledge building. The knowledge acquired through actors' perceptions and understanding is significant. In this kind of assumption, small 'purposive' sampling is used to gather data. Rich data is, therefore, produced. In this kind of approach, findings are accredited a low level of 'reliability'; however, 'high validity' is a characteristic of this paradigm (Blaxter et al., 2010; Saunders et al., 2009; Saunders et al., 2012; Miles and Huberman, 1994; Collis and Hussey, 2009; Girod-Séville and Perret, 2001 and Morris, 2006).

In contrast to the interpretative stance is the position of the 'natural scientists'. The positivistic paradigm is, in fact, a scientific approach with an objective vision of reality. A critical investigation is aimed at understanding and providing an explanation of the phenomena by direct observation of the social reality. This stance views the object of the research as separate from the subject. The study approach is systematic and highly structured. Independence from the phenomena to be reviewed and rigour in the knowledge building process are deterministic factors of this type of approach. The research process is built to research the causal relationships of variables and regularities, to test the theory with the aim of explaining reality. Hypotheses are formulated through theory. Hypotheses are tested through the measurement of variables to either substantiate or disprove theory. Further hypotheses might be developed to test the developed theory. Observation is applied to test theory through exploratory research design. In addition, a large sample is used to test data. As opposed to the interpretative stance, in positivism, findings are high in reliability but low in validity (Saunders et

al., 2012; Gill and Johnson, 2010; Collis and Hussey, 2009; Saunders et al., 2009; Morris, 2006 and Girod-Séville and Véronique Perret, 2001).

**Figure 26: Philosophical positions and associated assumptions**

| | **Philosophical positions and their associated assumptions** | |
|---|---|---|
| **Epistemology** (knowledge creation/foundation) | **Interpretative** (phenomenological approach) | **Positivistic** (scientific approach) |
| **Ontology** (nature of reality) | Subjective (social phenomena/ socially constructed) – understand reality | Objective/external |
| **Axiology** (value) | Value orientated; biased - interaction (subjective – subject and object dependence) | Value free; unbiased – independent from the research study (objective – subject and object separation) |
| **Study of the world** | Interpretation – open to interpretation and negotiation | Scientific – rigorous view |
| **Vision of the social world** | Intentional | Determined |
| **Nature of knowledge** | Empathetic stance (interpretation) Understand the world of the social actors and their perceptions | Observation of the reality (discovery) – research causal relationships and regularities<br>From theory, develop hypothesis – test hypothesis |
| | In-depth study of the phenomenon under study to understand reality | Test theory –<br>Explain reality |
| **Research objective** | Understanding the social reality about the problem | Provide and explanation of the reality |

Source: Blaxter et al., 2010; Girod-Séville and Perret 2001, p.15; Allard-Poesi and Maréchal, 2001, p.36; Gill and Johnson, 2010 cited Saunders et al., 2012; Saunders et al., 2009 and Saunders et al., 2012

At this stage, it appears relevant to exemplify the logic that follows the approach choice, as this has an impact on strategy, data collection and data analysis. The following section is, therefore, used to discuss the two described and considered philosophical and epistemological positions as alternatives to this study.

## 3.4 A reflection on the research assumption and position

Careful consideration is placed on the research problem and objectives for this study to reflect on the philosophical assumptions and the two indicated paradigms,

as illustrated in the previous two sections. This is to represent the first step in the research design, as illustrated in Figure 27.

In view of this research, following a reflection of the research problem and the raised objectives, the philosophical assumption to apply to this study is 'subjectivism'. The research attempts to examine embedded elements of SMEs' access to credit and related elements which might influence financial provisions. The study aims, in fact, to build on theory in order to uncover those aspects that might favour or constrain lending activities. Indeed, objectivism was a considered element in the reflective process. However, actors' perceptions are essential in addressing the research objectives. Subjectivism is viewed as being the most appropriate to uncover occurrences and answer the research questions.

Following this path and after careful consideration, the epistemological position regarded as being the most appropriate for this research is the interpretative stance. In fact, in terms of the 'nature of social entities', this is the position that best responds to the research aim to assimilate the understanding of reality and its explanation. This is to follow the subjectivism assumption discussed above. As already indicated, the philosophical stance and assumptions are interrelated elements. In fact, an interpretative perspective is subjective in nature as the actors' perceptions and their understanding of reality are interdependent. Reality is, in fact, socially constructed (see Saunders et al., 2009).

A scientific approach is regarded as a less effective evaluation technique for understanding the interrelations that occur between the different players within the context to be studied (Saunders et al., 2007 and Thiétart, 2001). Rather, it aims to understand the social reality by direct observation, where there is a net separation between the object to be examined and the influencing actors (see Saunders et al., 2009). This can be viewed as a limitation in the case of this research, where the intention is to study the phenomenon by understanding the significance that social actors place on reality and their perceptions and actions.

Weber (1947 in Bryman and Bell, 2011, p.16) maintains that 'sociology' is a "science which attempts the interpretative understanding of social action in order to arrive at a causal explanation of its course and effects". In fact, the understanding of reality is to be achieved by "developing an understanding of the cultural shared meanings, the intentions, motives of those involved in creating

these social realities, and the context in which these constructions are taking place…" (Allard-Poesi and Maréchal 2001, p.38).

The choice of a phenomenological approach for this study is justified by the complexity of organisations and social environment decisions surrounding processes. In the specific case, the subject surrounding SMEs' access to credit, occurrences inevitably involves individuals' interactions and a complex structured environment. Indeed, this represents an occurrence in constant evolution, shaped by the perception of SMEs' roles within the single economic area and the importance attributed to these types of businesses of financial support and its underlying elements.

**Figure 27: Philosophical assumptions and epistemological approaches correlated to the research**

<table>
<tr><th>Philosophical assumptions –<br>Basis for the research design and process</th><th>Research position – Justification</th></tr>
<tr><td>Subjectivism<br>Reality interrelated with actors' perceptions – socially constructed</td><td rowspan="2">Subjective<br>Perception of actors is an essential element for understanding and uncovering elements of SME access to credit. Objectivism would limit this purpose and intention.</td></tr>
<tr><td>Objectivism<br>Reality exists; it is independent of actors – explains reality</td></tr>
<tr><th>Epistemological approaches –<br>Vision of the world</th><th>Research position – Justification</th></tr>
<tr><td>Interpretative or phenomenological approach<br>Understand the significance that social actors place on reality (ontology) – perception and actions towards reality<br>Findings: low reliability but high validity</td><td rowspan="2">Interpretative<br>In line with the philosophical assumption: subjectivism. Understanding the significance that social actors place on the phenomena to be reviewed is essential for uncovering elements of SMEs' access to credit credit by a causality relationship (Saldana, 2013) spurring from, actors' interactions/transactions affecting the communication effectiveness to influence decisions and occurrences.<br><br>To discover reality through research based on causal relationships of variables and regularities, as proposed by a positivistic approach, would limit the study purpose and not respond to the set objectives.</td></tr>
<tr><td>Positivistic (scientific approach)<br>Understand the social reality by direct observation of the object separated from the subject<br>Findings: high reliability but low validity</td></tr>
</table>

The following section underlines the approach and method applied in this research.

## 3.5 Approaches and methods for the research

The literature identifies different approaches for the research process. These are indicated as deductive and inductive approaches and qualitative and quantitative methods. Figures 28 and 29 offer a synoptic view of the proposed process and the research position.

To best exemplify, a deductive approach is where an expectation is deduced from theory. An expectation is denominated as a hypothesis. This is tested on the basis of data collected through the causal relationship of variables to either confirm or invalidate a postulation. The study follows a rigorous structure and the understanding of the social world is limited (see Schutt, 2012 and Saunders et al., 2007).

In contrast to the deductive approach, the inductive approach concentrates on constructing a theory to explain data collected though the observation of the phenomena to generate inferences. In fact, this method encourages explanation building in terms of the reality and the phenomenon and the understanding of the social world-considered problem. Actors' perceptions and understanding are relevant to generate inferences and construct theory. A limitation is posed by the difficulty in constructing theory as the process requires continuous development of the acquired knowledge to generate inferences. Furthermore, a studied case might differ from another case to generate non-reliable information (see Schutt, 2012; Collis and Hussey, 2009 and Gill and Johnson, 2010).

The approach to the research is inductive to follow the philosophical interpretative perspective discussed in the previous section. In the light of the research, the intention is to understand what elements occur and how these might affect SMEs' access to credit. For this purpose, it is essential to uncover those elements that have a favourable or adverse impact on access to credit. Actors' perceptions are a relevant element in data analysis in order to understand the phenomena under consideration. A deductive approach would be too restrictive and would not enable the generation of inferences or the uncovering of elements to explain incidents as the understanding of the social world is limited.

The logic of the research to guide towards strategies to be adopted, in line with the interpretative stance, is predominantly qualitative as it offers a flexible method for data collection and analysis. This is to investigate and evaluate the phenomena and the issues surrounding occurrences (Burns, 2000 and Saunders et al., 2012). In a qualitative method, relevance is placed on the observation of the phenomenon to ‘capture social life’ and incidents (Schutt, 2012).

A quantitative approach, which starts with a potential hypothesis and tries, through empirical testing techniques, to examine variable relationships in order to validate or disprove the proposed assumption, is restrictive in understanding the incidents within a social context. Furthermore, there is an objective limitation in raising hypotheses that can be tested as theory can be general (Saunders et al., 2012; Thiétart, 2001 and Gill and Johnson, 2010). However, to collect data on SMEs’ perceptions about different lending elements, a mixed method is applied through the use of survey mode, to be fully addressed later in this chapter. Interviews as part of a qualitative mode were considered impracticable due to the difficulty of locating participants. A further emergent deterrent element was possibly the issue of privacy and confidentiality. A survey-type approach assisted the achievement of anonymity and discretionary dimensions. The next section will illustrate in more detail the strategies and relative surrounding factors.

**Figure 28: Research position on the application of approaches**

| Research Approaches | Research Position |
|---|---|
| **Inductive**<br>*Understanding the social world-considered problem<br>*Observation of the phenomena<br>*Actors' perceptions and understanding:<br>1 - construct theory – data to theory (not simple)<br>2 - explain data collected<br>3 - generate inference – difficult to generate meaningful data<br>4 - small sample studies – related to qualitative method and interpretative stance<br>Encourages explanation building about the reality and the phenomenon | **Inductive**<br><br>The intention is to understand hindering elements for SMEs' access to credit. Actors' perceptions are relevant to uncover elements of lending. |
| **Deductive**<br>Applies theory rather than developing theory – difficult to raise hypothesis to be tested as theory can be general<br>Formulate hypothesis and measure variables; therefore, hypotheses are tested to confirm or invalidate postulations deriving from theory<br>*Not to develop theory – theory to data<br>*Rigorous structure<br>*Understanding of the social world is limited | A deductive approach is too rigorous; studies formulate hypothesis through measuring occurrences (variables) and therefore do not offer the scope to enquire holistically into the phenomena. |

Source: Schutt, 2012; Collis and Hussey, 2009; Gill and Johnson, 2010 and Saunders et al., 2007

**Figure 29: Research position on the application of methods**

| Methods | Research Position |
|---|---|
| **Qualitative**<br>In line with the philosophical assumptions (subjectivism), epistemological approaches (interpretative) and research approaches (inductive)<br>***** Flexibility of the research enquiry<br>***** Small samples are studied<br>***** Relevance of data rather than theory – to emphasise the observation of the phenomenon to 'capture social life' and incidents (Schutt, 2012) | **Predominantly Qualitative**<br>Qualitative, through small samples, offers flexibility to investigate the phenomenon. Data collected is relevant for studying the reality surrounding the phenomenon to be researched and to draw inferences<br><br>**However, application of mixed method through a descriptive survey** (underlined by the section on strategy choice) |
| **Quantitative**<br>In line with the philosophical assumption (objectivism), epistemological approaches (positivism) and research approaches (deductive)<br>***** Starts with potential hypothesis<br>***** Empirical testing techniques to examine variable relationships – rigour applies | Research based on quantitative methods to validate or disprove proposed assumptions is too restrictive to understand the phenomena and to draw inferences on elements which may hinder or favour SMEs' access to credit |

Source: Burns, 2000; Saunders et al., 2012; Schutt, 2012; Thiétart, 2001 and Gill and Johnson, 2010

## 3.6 Purpose

The literature proposes three classification purposes labelled as descriptive, explanatory and exploratory. Research questions are directed to the choice of purposes able to provide an answer to the posed question. The questions that are posed by this research lead to exploratory and descriptive answers.

This research, in line with the selected approaches, therefore adopts both exploratory and descriptive studies. An exploratory study allows, through empirical enquiries, an understanding of the phenomena, unveiling occurrences and uncovering incongruences and elements to be further addressed. It offers flexibility to study the phenomena, in line with the inductive and qualitative approaches as part of this research position. This research applies different strategies to answer the research question, as illustrated and discussed in the next section. Specifically, the strategy is based on case study and multi-source documentation as a secondary data source and is, therefore, ascribable to an exploratory type study (see Saunders et al., 2007).

A descriptive study is followed to both evaluate and synthesise collected data based on exploratory means and through a descriptive survey. A survey is, in fact, created and applied to substantiate and validate or to disprove elements underscored by secondary data. The results from the survey are relevant to uncover occurrences drawn by a transactional analysis application and causality relationships. This is to allow an understanding of the phenomena through a different lens by adding actors' perceptions, viewpoints and experiences in the context of SMEs' access to credit (see Saunders et al., 2007).

Typically, causal or explanatory research studies the phenomena by means of variable measurement and causal relationships. This is typical of a quantitative study which, as explained in the previous section, is not the predominantly selected route for this research (see Saunders et al., 2007).

There is a link between the purpose and the research strategy and the subsequent application of specific techniques in data collection. These aspects are exemplified in the following sections.

## 3.7 Research strategy application: benefits, limitations and position

Different and multiple types of strategies for collecting data are offered by the literature. The ones applied to this study are case study and survey-type approaches. A ‘mixed method’ approach is, therefore, applied to this research. A mixed method is an approach which allows for merging both qualitative and quantitative techniques to gather data though data analysis (Saunders et al., 2007 and Miles et al., 2013). For completion purposes, other types of strategy routes, not applied to the research, are also considered. A synopsis of the various considerations leading to this research strategy decision over data collection and the following analysis is thereby proposed in Figures 30 and 31. Each type of strategy poses benefits and limitations. These two factors, together with the philosophical stance, assumption, approaches, method and study purpose form the basis of the researcher’s selection.

## 3.8 Case study

A case study commonly applied to management studies is indicated as an ‘empirical investigation’ to study the phenomena to be explored, by analysing data from multiple sources (Yin, 1989). A benefit of this kind of strategy is the positive impact that it has on ‘theory building’ as a typical feature of the inductive approach. Furthermore, it enables holistic research of the phenomena and related specific elements to uncover occurrences. This type of strategy is time-intensive and requires rich data to enable exploration, probing, consideration and screening of the gathered elements. It requires rigour in the reduction of data collected. Multiple and single case studies are the two main types of strategies indicated by theory and considered by this research (Saunders et al., 2007; Saunders et al., 2009; Hair et al., 2007; Yin, 1989 and Yin, 2009).

A multiple case study strategy requires a full comparative study between two or more elements by applying a ‘replication logic’ technique. Data availability and accessibility can pose a limitation to this kind of strategy application (Yin, 1989). A single holistic case study is represented by a ‘critical case’ “…of a significant theory”, a study “to confirm, challenge or extend theory” (Yin, 1989, p.47). In both cases ‘embedded case studies’ can be applied. Embedded case studies are

identified ‘subunits’ to investigate the topic and respond to the posed objectives (Yin, 2009).

This research, in line with the qualitative method, follows an integrated case study-type strategy as part of an exploratory purpose. The emphasis placed by policy makers on the importance of SMEs in the context of the economic sustainability of the European economic area, as well as the significance placed on their growth, accentuates the relevance of uncovering those aspects that might enhance or hinder access to credit. The aim of the research is to “uncover the interaction of significant factors characteristic of the phenomenon” (Merriam, 1998, p.29).

Reflection on the considerations underlined in the introductory chapter of this thesis directs the researcher to centre the research on a single ‘holistic’ and ‘intrinsic’ case study-type strategy with ‘embedded units of analysis’ being ‘exploratory’ in nature (Hartley, 2004; Bryman and Bell, 2011 and Yin, 2009, p.46). The strategy choice finds support in Yin (1989, p.23), who maintains that “A case study is an empirical inquiry that: investigates a contemporary phenomenon within a real life-context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used”. It encapsulates the essence of the research problem in an attempt to generate and suggest new possible approaches (Merriam, 1998 and Bryman and Bell, 2011). A strategy based on the application of a case study, therefore, allows the researcher to understand the nature of the phenomena by means of a ‘social entities’ analysis to inductively discover elements (Merriam, 1998 and Yin, 2009). The research is therefore based on a single case study where Italy represents the ‘critical’ case. In some cases two smaller cases centred on the United Kingdom and/or Germany are applied to verify or to compare and contrast occurrences towards a comparative strategy to warrant completeness, validity and reliability. Therefore, this research includes a single case study with some comparative data drawn from two countries to illustrate particular points. This is to allow for a comparative study to add value to the research in terms of the validity and reliability of the results.

## 3.9 Survey

A second strategy is represented by a survey-type approach. This type of strategy appertains to a quantitative-type method (Saunders et al., 2009 and Hair et al.,

2007). A strategy based on survey can contribute to gathering information, which can add value to the research in terms of reliability and validity. To allow for the effectiveness of gathered data analysis, it is relevant that a survey be designed to provide specific and standardised, well-structured questions. This is to avoid participants' diverse interpretations adding to reliability.

Data collected can be either analysed through 'descriptive statistics' or through 'analytical survey' (see Hair et al., 2007; Saunders et al., 2007 and Collis and Hussey, 2009). 'Descriptive statistics' applies to a descriptive-type study and aims to collect participants' views and positions on the phenomena under consideration (Saunders et al., 2007, p.134 and Collis and Hussey, 2009, p.77). An 'analytical survey' is instead used to investigate relationships between variables through a dependent and an independent variable or more variables (see Collis and Hussey, 2009, p.77). This research follows a descriptive-type study, as discussed in a previous section, and a 'descriptive statistic'-type survey is selected. Primary data, underpinned by a descriptive survey, is found to be a useful means of adding evidence and value to findings (Saunders et al., 2007). This alternative also follows the qualitative-type method, this research's interpretative stance and inductive approach. As in a 'case study'-type strategy, a survey approach is applied to business and management studies (Saunders et al., 2007). It is described as a "…methodology designed to collect primary and secondary data from a sample, with a view to generalizing the results to a population" (Collis and Hussey, 2009, p.77). It involves collecting data directly from participants by way of gathering numerical data through questionnaires and it is representative of primary data sources of information.

A questionnaire-type technique is applied in structuring the survey. This type of technique requires particular attention in its creation phase. It must be well constructed and questions must be clearly posed to avoid respondents' biases and different interpretations of the proposed questions. This type of approach can be an effective tool for gathering comparative meaningful data and providing high validity but, to be effective, it requires a considerable amount of time to organise. Furthermore, responses are easy to code for analytical purposes. Questions can be a mixture of closed and open types. Few open question options are offered by this research but responses are not deterministic for the research but useful points for reflection (Hair et al., 2007; Saunders et al., 2007).

Questionnaires can be distributed via the internet or through other electronic means. They can also be conveyed by direct contact with participants via the telephone or face to face (see Collis and Hussey, 2009 and Hair et al., 2007, p.204). A self-completed survey via electronic means requires few financial resources and assures participants' anonymity but requires a well-structured and well-designed questionnaire to avoid participants' erroneous interpretations. If well-structured and designed, a self-completed survey can allow for accuracy of information on data collection (see Hair et al., 2007; Saunders et al., 2007 and Collis and Hussey, 2009). Conversely, a 'personal contact'-type survey, more expensive in financial terms, allows for probing participants and providing direct explanations of the questions and the survey's content. However, this type of strategy requires establishing contacts with different entities, which is not always feasible (see Hair et al., 2007; Saunders et al., 2007 and Collis and Hussey, 2009).

In the case of this research, an electronic post mode was selected and, therefore, a self-administered survey. As already illustrated, this can guarantee participants' anonymity. The willingness of participants to contribute can, however, represent a limitation. The benefit of this strategy is the possibility of reaching a larger number of participants by employing limited economic resources. A personal contact-type survey is not a feasible application for this study due to the difficulty of establishing full contacts to gain substantive data from different types of businesses and different countries (see Saunders et al., 2009).

As specified and explained, the research is based on a survey to enquire into SMEs' perceptions and knowledge of elements related to lending drawn from secondary data enquiry. As in the case study strategy the survey is predominately based on Italy. Few participants are from the United Kingdom for comparative purposes and to understand whether the Italian survey's results are country related or extended outside national borders. Indeed, the survey could have been collected not only from SMEs but also from banks. This strategy allows for a dual perspective and enhances the reliability of information, providing scope for comparisons. Access has, however, presented different obstacles. In fact, attempts to gain access have proven complex and not possible. Possible indications were the relevance of the subject being researched and the links to internal banking strategies and decisions. Another option taken into consideration

was to base the research on the collection and analysis of data based on existing Europe-wide surveys rather than on designing and distributing a survey to prospective participants. This strategy would allow free access but it would have entailed a quantitative-type methodology application for the research. As already indicated, this method would be restrictive in responding to the research objectives and not able to provide an integrated study of the phenomena under consideration, as the qualitative stance proposes. It should, however, be underlined that Europe-wide surveys are employed by this research to analyse data on lending elements.

The research line of action to survey orientation design and distribution is, therefore, orientated to allow evidence, adding value to the research in terms of the validity and reliability.

**Figure 30: Case study strategy application for the research**

| Case study | Benefits | Limitations | Research choice |
|---|---|---|---|
| | * 'Typical on policies and management studies' (Yin, 1989, p.13)<br>* Positive impact on theory building<br>* Able to research specific elements, in uncovering occurrences to answer the research questions and achieve objectives<br>* Allows to study the phenomenon. | * Multiple cases comparative studies – data availability and accessibility<br>* Time-intensive, rich information: need to explore, probe, consider, scrutinise and reduce information by rigour and method<br>* Single cases – lower level of validity | * Exploratory study – qualitative method<br>* Single case study plus two smaller case studies for comparative purposes, adding to validity and comparability |

Sources: Saunders et al., 2007; Saunders et al., 2009, Hair et al., 2007, p.224; Hair et al., 2007; Yin, 1989; Yin, 2003 and Yin, 2009

**Figure 31: Survey strategy application for the research**

| Survey | Benefits | Limitations | Research Choice |
|---|---|---|---|
| | * Used in management and business research (Saunders et al., 2007, p.138)<br>* Allows to reach more participants (larger sample)<br>* Information can add value (validity and reliability)<br>* Add evidence on research based on secondary data analysis (in this research case study strategy)<br>* Low resources (in economic terms – electronic)<br>* Effectiveness of data collected – standardised, well-structured questions<br>* Two types of surveys:<br>(1) 'descriptive statistics' – collect participants' views/positions. Applied to a qualitative method study and descriptive study (Saunders et al., 2007, p.134 and Collis and Hussey, 2009, p.77)<br>2) 'Analytical survey' to investigate relationships between variables through a dependent and an independent variable or more variables (see Collis and Hussey, 2009, p.77)<br>* Electronic survey (mail) assures participants' anonymity – self completed, anonymity<br>* Personal contact survey (telephone or face-to-face) allows the researcher to steer the conversation and to explain – probe participants | * Difficult to get actors to participate<br>* Difficult to design – questions must be precise and not allow diverse interpretations ('low response rate')<br>* Time-intensive to search for access<br>* Electronic survey can lead to participants' erroneous interpretation of questions<br>* Personal contact survey can reduce validity. Requires establishing contacts. Costly. | * Descriptive research – quantitative method<br>* Also used in exploratory research – in this specific case it represents the basis and it is complementary to case study analysis as qualitative type method (exploratory)<br>* Use of electronic survey to assure anonymity Personal contact-type survey not possible due to the difficulty in establishing connections to gain substantive data from different types of businesses and countries. |

Sources: Saunders et al., 2007; Saunders et al., 2009, Hair et al., 2007, p.224; Hair et al., 2007; Yin, 1989; Yin, 2003 and Yin, 2009

## 3.10 Further pondered potential strategies for application for the research

Ethnography and grounded theory are hereby briefly illustrated. These types of strategies were considered by the researcher but not applied to the research due to factors explained in this section.

Ethnography is representative of an inductive approach and requires the researcher's involvement in the research process. Proximity and access are deterministic aspects in the application of this type of strategy. These elements, in fact, allow for understanding of the phenomena through interaction and observation of the respondents' behaviour (Hair et al., 2007 and Saunders et al., 2007). This strategy, however, can be adversely affected by biases due to the researcher's high level of involvement in the data collecting process. In fact, the researcher needs to be fully immersed to study the phenomena and investigate the 'social world'. To allow for full immersion, time becomes a relevant aspect to be considered (see Saunders et al., 2007). A behavioural observation of SMEs in terms of credit applications and their perceptions of banking institutions' decision making processes would be beneficial in understanding the phenomena. However, there is a limitation for this research due to a difficulty in obtaining access to SMEs and banks. Furthermore, the consideration of financial resources has a negative impact on the application of this type of strategy to this research.

Grounded theory is described by the literature as a strategy aimed at theory building through the application of both inductive and deductive approaches (Saunders et al., 2007). As in the case of ethnography, an observation of participants' behaviour is relevant to data collection. Data from observation is used to make predictions which need to be tested through follow-up observations. This process is used to test whether first observations confirm or disprove earlier predictions. Through this practice, theory is built. This kind of strategy requires the researcher's full immersion in the reality. This requires access to participants and the time factor is a necessary element to complete the process and gather meaningful data (Saunders et al., 2007 and Collis and Hussey, 2009). This type of strategy is not applicable to this research as access to SMEs to understand their perceptions and behaviour regarding credit application is not feasible. Time represents a limiting factor. Furthermore, the cost element is a detrimental factor

to this type of strategy. The following section illustrates the techniques applied to this research to follow the selected strategies.

## 3.11 Time horizon

The literature proposes two different time horizon options, defined as 'cross-sectional' and 'longitudinal' (see Saunders et al., 2007). An important aspect to be underlined is that time horizon choices are not dependent on the research design but are relevant in defining the data collection.

To distinguish, the cross-sectional option is selected when the research focuses on a particular time span. In contrast, a longitudinal position is taken when a study is carried out or related to a longer time frame. This second option allows for gathering data representative of different periods for comparative purposes over time and to understand possible changes and the development of the phenomena under consideration (see Saunders et al., 2009 and Hair et al., 2007). Looking at the research, the strategy is based on a survey and representative of a cross-sectional position, as obviously the time horizon is specific to a particular time. Data is analysed through statistical software; in this specific case, using the SPSS (see Hair et al., 2007). However, the research is also constructed on the basis of a case study strategy, where data analysis falls over a period of time between 2008 and 2013.

## 3.12 Data collection and data analysis

The research attempts to uncover constraining elements of SMEs' access to credit through primary and secondary data analysis in order to generate knowledge and a theoretical framework. This type of approach to the study offers flexibility in understanding the reality that surrounds the problem to be studied and in developing a theory about the phenomena (Saunders et al., 2009; Saunders et al., 2012; Hair et al., 2007; Gill and Johnson, 2010; Lancaster, 2005 and Collis and Hussey, 2009).

A full synopsis of secondary and primary data application is proposed below in Figure 32.

**Figure 32: Primary and secondary data collection**

| The basis for data collection | | | | |
|---|---|---|---|---|
| **Data Collection** | **Benefits** | **Limitations** | **Research Choice** | **Strategy** |
| **Secondary Data** | * Literature review to have a better understanding of the phenomena and uncover possible incongruence or elements to be further addressed<br>* Multiple sources: to be processed ('raw data, written reports, datasets' (Hair et al., 2007, p.119)<br>* Increases reliability<br>* 'Exact detail' – important to compare information from different sources of evidence<br>* archival records (e.g.: survey data – usually reliable and of quantitative type (to add to reliability and validity) | * Difficult to find comparable data at European Union level between different countries for comparative analysis<br>* Writers' biases – need to compare information from different sources of evidence | Multiple-type secondary data source<br><br>Archival records | Single case study plus two minor cases |
| **Primary Data** | * Increases<br>1 - Reliability<br>2 - Validity<br>* Actors' perceptions and opinions– adds value to uncovering occurrences and to construct inferences | Difficult to find availability and willingness to participate in the survey | Survey best option to validate or confute findings from secondary data analysis | Survey structured questionnaire – closed questions |
| **Triangulation** | Secondary data plus primary data – adds validity | Need to converge all information – adds complexity | Triangulation | Convergence of information and structured survey contribute to deliver findings and inferences – adds validity and reliability |

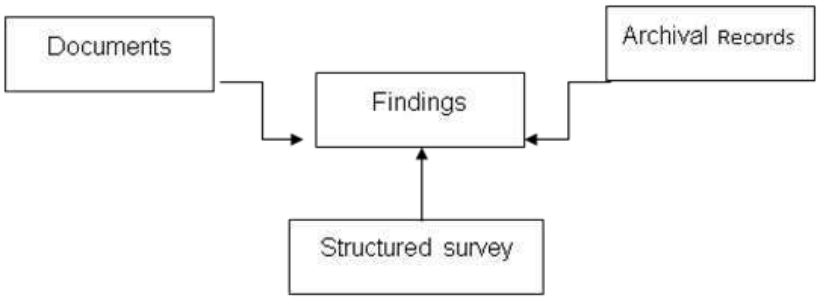
Source: Hair et al., 2007; Saunders et al. 2009; Saunders et al., 2012; Gill and Johnson, 2010; Collis and Hussey, 2009; Lancaster, 2005; Yin, 2009 and Yin, 2014)

Secondary data is gathered and analysed from ‘multiple source-type information’ both ‘area-based’ and ‘time series-based’ and by ‘survey’ type sources, to include official publications from governments and public institutions, journals and statistics. Data to be analysed, therefore, includes information in the forms of “written reports, raw data and datasets” (Hair et al., 2007, p.119). Secondary data from multiple sources provides reliable data for addressing the research questions and understanding the social reality within the European Union context (Saunders et al., 2009, pp.258-259).

The issues of subjectivity, reliability and bias are intrinsic aspects of an interpretative approach. “Validation in qualitative research is the extent to which qualitative findings accurately represent the phenomena being investigated” (Hair et al., 2007, p.297). This is overcome by secondary data official sources, representative of a variety of authoritative publications. At the same time, an analysis based on a spectrum of different source information allows for data validity (see Saunders et al., 2009). Additionally, the validity and reliability of data analysis, based on a case study approach, is offered by primary data in the form of a survey-type strategy. In the case of primary data, quantitative research is applied and reliability is linked to the “degree of consistency in assignment of similar words, phrases or other kinds of data” (Hair et al., 2007, p.297).

Triangulation, as a ‘convergence of evidence’ (see Figure 33), is applied to increase the reliability and validity of qualitative research (Hair et al., 2007 and Yin, 2009, p.121). This includes four different ingredients, which are ‘researcher triangulation’, ‘data triangulation’, ‘method triangulation’ and ‘theory triangulation’ (Hair et al., 2007, p.298 and Yin, 2009). In the case of this research, all four aspects apply. Researcher triangulation is assured through multiple sources of data to compare other authors’ results. Data triangulation is assured as information is collected from multiple sources, of which raw data and written reports are also compared to ensure analogies. Method triangulation is applied through a case study approach and the application of a survey-type strategy. In fact, different methods of analysis are applied and findings can be compared. Theory triangulation, through the use of different models and standpoints, to provide an interpretation and explanation of findings, is applied throughout the research (see Hair et al., 2007, p.298).

**Figure 33: Triangulation**




Source: Adapted Yin, 2009, p.121

The two following sections best illustrate the selected strategies for this research, underlining the selected methods for the data collection process and analysis.

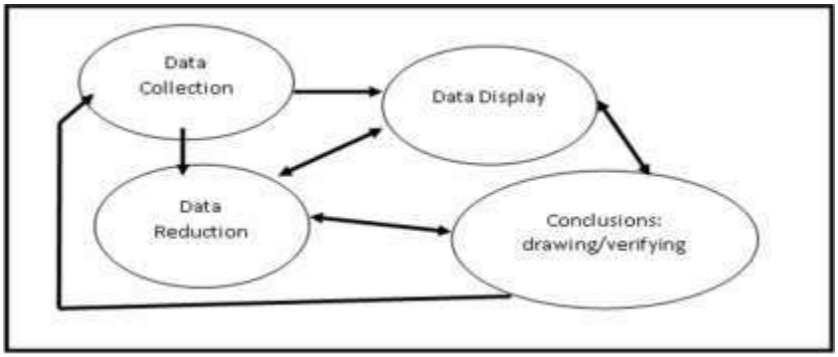
## 3.13 Survey

Primary data is underpinned by a descriptive survey-based approach, striving to add further evidence to the perspectives on SMEs' access to credit and to test the validity of the built theory. The descriptive survey is based on non-probability sampling (Gill and Johnson, 2010; Hair et al., 2007 and Schutt, 2012). A descriptive survey can be collocated in an exploratory-type strategy (see Saunders et al., 2007), as already highlighted in this chapter. The survey is constructed on the basis of occurrences uncovered by the study on SMEs' access to credit. The emphasis is, therefore, on lending activities and relationship lending, based on themes drawn from secondary data analysis. The survey's questions are, therefore, the result of the conceptual frameworks formed during the research process, where themes have been uncovered and inferences drawn to follow a qualitative-based approach (see Figure 34) (see Gill and Johnson, 2010).

Descriptive coding is effective in clustering data to construct survey questions (see Saldana, 2013). A survey strategy based on 'descriptive coding', where questions are structured, standardised and designed on research drawn themes, attempts to avoid interpretation by respondents, to reduce interviewer bias and to increase reliability and comparative analysis (Hair et al., 2007 and Saunders et al., 2007).

The final aim is to uncover additional evidence by adding to knowledge distinctive elements about SMEs' access to credit.

**Figure 34: Qualitative data analysis framework development by Miles and Huberman**




Source: Hair et al., 2007, p.292

Probability sampling is employed in quantitative-type approaches, whilst a non-probability sampling strategy is linked to qualitative-type studies. Hair et al. (2007, p.107) indicate that "findings from the sample data can be used to describe, discover and develop theory" as envisaged by a qualitative approach strategy. In fact, non-probability sampling is in line with the 'interpretative paradigm' (see Collis and Hussey, 2009, p.212 and Schutt, 2012). Non-probability sampling strategy is, therefore, adopted in selecting the sample base for survey distribution. The 'target population' selection is to follow the 'purposive sampling' method (see Schutt, 2012) and is represented by small and medium-sized businesses which follow the European Commission classification, as pictured in Table 7. The 'purposive sampling' method is part of the non-probability sampling strategy and it is based on a selection of possible actors based on availability or relevance factors.

**Table 7: Business classification according to the European Commission**

| Size Classification | Employees | Turnover (millions) |
|---|---|---|
| Micro | < 10 | ≤ 2 |
| Small | < 50 | ≤ 10 |
| Medium | < 250 | ≤ 50 |

Source Liikanien, 2003, p.142

Therefore, the choice of countries is based on a combination of 'judgement sampling' and 'convenience sampling', also denominated 'availability sampling' (see Hair et al., 2007). Judgement sampling is based on a comparative data

enquiry on ‘number of SMEs’, ‘number of employees’, ‘turnover’ and ‘added value’ elements. A comparison of these elements, as exposed in the previous section, has evidenced Italy as the country with the higher SMEs proportion and relative labour participation, turnover and value added share, followed by the United Kingdom, as fully illustrated and explained earlier in this chapter.

The proposed sample then follows ‘judgement sampling’ in the form of ‘homogeneous sampling’ due to case similarity (see Hair et al., 2007; Saunders et al., 2007). In fact, the basis of the population sampling is the districts’ element as representative of a distinctive well-structured and established characteristic, as exemplified in Table 8. Both Italy and the United Kingdom are representative of a ‘clustering’ model. A full illustration of those characteristics is provided in Appendix B.

Districts and clusters are used interchangeably throughout this research, intended as the representation of a group of businesses that, due to proximity and ‘inter-linking’ aspects, are able to cooperate ‘horizontally or vertically’ by actively participating in business activities for local development and growth (Miller et al., 2001). The ‘sampling unit’ selected is based on a mix of ‘quota sampling’ and ‘availability sampling’ or ‘convenience sampling’, both ascribing to the non-probability method (see Schutt, 2012). Schutt (2012, p.155) indicates that “the distinguishing feature of a quota sample is that quotas are set to ensure that the sample represents certain characteristics in proportion to the prevalence of the population”. In quota sampling, the sample is divided into standardised subgroups, where the sample is proportionally represented. The sampling, selected on a ‘convenience basis’ is, therefore, subdivided into strata. In availability sampling, the selection of the population is on the basis of convenience. In the case of this research, it represents the basis of the quota sampling, which allows for homogeneity of the sample selected (Hair et al., 2007, pp.170, 182 and Shut, 2012).

It is important to underline at this stage that Italy and the United Kingdom are structurally different and, therefore, no strict comparison can be provided. The Venetian and Abruzzo regions are selected in the case of Italy and the South East for the United Kingdom. The selected samples, the Veneto and Abruzzo regions in Italy, are proportionally representative of the population; however, an element of ‘availability’ or ‘convenience’, connected with possible corroborations towards

survey distribution subsists. Although, as specified, there is an element of convenience, this is mitigated by the application of the ‘quota’ approach. In fact, ‘quota’ sampling “ensures representation of key strata” (Schutt, 2012, p.157) and overcomes the problems of ‘availability sampling’ where there is an element of convenience (see Schutt, 2012, pp.156-157). As specified, a number of districts are representative of a particular characteristic and, therefore, form the basis of the selection.

The ‘sampling unit’ is, therefore, based on regional classification for Italy and for the United Kingdom. In both cases they are representative of national stratification and of clustering taxonomy (Table 8). As already specified, the two selected regions for Italy are ‘Veneto’ and ‘Abruzzo’. In the case of the United Kingdom the South East is selected. In the case of Italy, the two regions selected represent a segment of a larger geographical cluster to be divided by North and South elements. For the United Kingdom, the South East is selected due to a high SME percentage representation. In the case of ‘Veneto’ the twenty-two districts represent the median population size, mostly representative of the northern regions including Lombardia, Veneto and Emilia-Romagna. Within the southern regions, as districts are similarly represented, the ‘Abruzzo’ region represents the mean of the whole population. The selection is based on two regions representative of two strata of the country, differing in economic terms but with similar industrial networking structures. The objective of primary data is to raise further inferences. The survey outcome results from the two regions, representative of different economic positions, are viewed as important in determining further conclusions able to add perspectives and to validate proposed models exposed by the research.

**Table 8: Districts within the Italian territory: clustering taxonomy**

| Country Stratification – Italy & United Kingdom (UK) | | |
|---|---|---|
| **Regional Classification** | **Clustering Taxonomy (2008/2012)** | **Sample Basis** |
| **North Regions** | | **Sample Veneto** |
| Lombardia | 24 | 24 |
| **Veneto** | 22 | 22 |
| Emilia Romagna | 20 | 20 |
| **South Regions – Isles** | | **Sample Abruzzo** |
| **Abruzzo** | 5 | 5 |
| Campania | 6 | 6 |
| Puglia | 9 | 9 |
| Sardegna | 2 | 2 |
| Sicilia | 3 | 3 |
| **Geographic (UK)** | | **Sample South East** |
| East Midlands | 12 | |
| **London** | 18 | |
| Eastern | 12 | |
| North East | 9 | |
| **North West** | 17 | |
| Scotland | 13 | |
| Northern Ireland | 8 | |
| **South East** | 17 | **High Number Representation & Convenience Sample** – Reliable contacts (Established & recognised institutions) |
| South West | 13 | |
| West Midlands | 11 | |
| Wales | 14 | |
| Yorkshire & Humberside | 10 | |

Source: Source: Palumbo, 2013, p.123 and Miller et al., 2001

As already indicated, the samples selected both in the Venetian region and in the South East are based on a mixed sampling method to include ‘convenience sampling’ and ‘purposive sampling’, both attributes of the non-probability approach (see Schutt, 2012, p.157 and Saunders et al., 2007). In the case of the Venetian region, e-mails could be directly distributed to affiliates or contacts to select the target population within the sampling unit. ‘Self-selection sampling’ is thereafter followed by recipients on the survey sent by an authoritative body. The prospective respondents are representative of all segments within Veneto’s market and part of the ‘target population’. For the South East, through established institutions, the strategy is to follow the snowballing method. This methodology is also adopted in the case of the Abruzzo region. Miles et al. (2013, p.32) recognise that “some strategies benefit inductive, theory-building analysis” and identify snowball sampling as one of these. The way in which this technique is assimilated is by

‘chain referral sampling’ whereby an initial contact forms the basis for successive contacts. This method is mostly used when there is little source availability or there is an objective difficulty in having contact with possible participants. In the case of the Abruzzo region and the South East, there was an objective difficulty in creating meaningful contacts with official institutions. A snowballing sampling strategy was, therefore, found to be a feasible method to obtain a sample able to either refute or confirm the Venetian region’s results.

The survey results, on individual questions, were analysed through the use of the SPSS software tool as part of the ‘CAQDAS programs’ (see Saldana, 2013). The use of the SPSS might be relevant in “ascertaining whether logically derived relationships expressed in social theories correspond to empirically observed relationships in social data” in line with an inductive-type approach (Babbie et al., 2013, pp.4-9). Each answer is coded according to themes to cluster data on the basis of the ‘descriptive method’ (Saldana, 2013, pp.88-89), as illustrated in Figure 35.

**Figure 35: Survey questions: themes based on secondary data for descriptive coding**

| Themes | Descriptive Coding (Name) |
|---|---|
| Population | Sector, Firm Size |
| **1)** Financing type<br><br><br><br>**2)** Destination | **1)** own capital, self-generated reserve, equity, microfinance, bank loans, overdrafts, credit card, leasing, factoring, commercial credit, advance customers, subsidised credit, based lending (assets), invoice discounting, advance payments, other.<br>**2)** ordinary activity, investment. |
| Bank Financing (access to credit) | bank loans, institutions for loans, bank loan importance, access credit problem<br>information required<br>opinion on banks' rigour over information required |
| Relationship Lending | relationship, number bank relationship, opinion on relationship, bank relationships. beneficial (for those not having a relationship)<br>Opinion: cost on loan, cost on other credit, service choice, degree success application loan, degree success application other (credit), term conditions loans, term conditions other (credit), interest rates loan, interest rates other (credit). |
| Micro-Financing | Microfinance application<br>Institutions applied through: group big banks, cooperatives, local banks, other banks.<br>Not applied microfinance, process application microfinance, level requirement guarantees and documentation microfinance |
| European Union promotion of lending-type financing | Know: European Union (EU) promotion type loans<br>Grade of: accessibility EU credit type loans |

Data collected by the survey is, therefore, labelled by assigning specific coding by allocating numbers, so-called 'values', to individual answers. This allocation is done on the basis of 'attribute coding' and 'magnitude coding' techniques (see Saldana, 2013 and Miles et al., 2013). Saldana (2013, p.70) recognises that attribute coding "is good qualitative data management and provides essential participant information and contexts for analysis and interpretation". Magnitude coding is allocated in the case of answers, indicating the 'weight of importance' and 'frequency' (Saldana, 2013, p.73). This type of data can be analysed statistically on the basis of Nominal, Ordinal and Scale levels, identified as 'discrete variables' (see Babbie et al., 2013). In the case of the survey, all three measurements are applied with a preponderance on 'nominal' to distinguish between micro, small and medium businesses and sector types and 'ordinal' to specify ranking or order of given answers, thus classifying responses according to nominal categories. The application of 'scale' levels to measure intervals is related

to a few answers such as the one regarding the volume of relationship lending entertained by SMEs.

Collected information is, as already envisaged, coded on the basis of ‘magnitude coding’ to cluster data together according to the allocation of specific attributes to transform qualitative data into quantitative meaningful information (see Saldana, 2013). This approach transforms information analytically through a software-type instrument and should provide valid and reliable data (see Babbie et al., 2013). This approach is, therefore, used to provide structured analytical results as additional comparative data to substantiate or confute research results in secondary data investigation (see Ghauri and Gronhaug, 2005, p.207; Gill and Johnson, 2010). Hair et al. (2007, p.35) indeed indicate that “once collected, the data are analysed and become the basis for improved decision making”. The data is, in fact, transferred to the SPSS software to provide ‘frequency distribution’ in line with the selected type of statistic and ‘correlation’-type analysis through cross-tabulation (see Schutt, 2012; Babbie et al., 2013 and Collis and Hussey, 2009). Primary data analysis through the SPSS software is based on ‘descriptive statistics’. Here, data, as from a survey, can be aggregated and displayed in a graphical form, such as, for example, on charts or in tables. It differentiates itself from inferential statistics, where findings are drawn from quantitative data linked to a random sample. Descriptive statistics, in line with the study purpose, are, therefore, applied to this research. In descriptive statistics, distribution between variables is illustrated (see Schutt, 2012 and Collis and Hussey, 2009). The information is then evaluated on the basis of ‘univariate’-type analysis. In univariate-type analysis one variable is examined. ‘Bivariate’-type analysis, where two variables are analysed, is also used in the form of ‘cross-tabulation’. In this case a variable dependency exists, characterised by an independent and a dependent variable. A bivariate analysis assists in providing an explanation of the aggregated information about the enquiry being posed (see Babbie et al., 2013 and Collis and Hussey, 2009). The use of both types of analysis is applied depending on the type of questions being posed. In some cases, answers are best analysed in the form of a bivariate-type analysis. In fact, when the objective is to acquire meaningful figures on aggregated information, a univariate analysis cannot provide the required information (Babbie et al., 2013). In line with descriptive statistics, data is analysed to obtain ‘frequency distribution’ whereby information is displayed to show ‘number of times’ and relative percentage variables to

occurrences. Where found relevant, chart-type illustrations are used to cluster elements (see Babbie et al., 2013). Pattern coding, illustrated in a 'clustered matrix', is considered to show 'emerging themes' inductively, providing further evidence from which to draw inferences (see Miles et al., 2013, pp.86-87, 173 and Saldana, 2013).

### 3.13.1 Survey pilot testing, timetable and population analytical outline

The questionnaire was pilot tested in the Abruzzo region with a few participants. This was to probe whether the questions were clear to participants and whether the answers could provide reliable information to elaborate meaningful results (Saunders et al., 2007). The pilot testing was useful and fully demonstrated the effectiveness both in terms of the structure and the subjects being addressed. Questions were fully understood by participants and answers were fully completed. Following the pilot testing, the survey was disseminated more extensively in the Venetian region and the United Kingdom. The timetable for data collection to indicate responses is illustrated in Figure 36.

**Figure 36: Timetable for data collection**

| Regions | Timetable Distribution | Responses |
|---|---|---|
| Abruzzo - Italy | Pilot Testing – beginning 2013 | 5 responses by mid-2013<br>5 responses later in 2014 (participants heard about the survey – snowballing method)<br>out of 10 contacts all responded |
| Venetian - Italy | Survey sent out – mid-2013 | 73 responses out of 250– mid-2013 (self-selection method)<br>Full responses 73. Partial responses 22. The general survey analysis is based on full answers. |
| South-East – United Kingdom | Survey sent out – beginning 2015 | 9 responses out of 22 – beginning 2015 (snowballing method) |
| | | 92 total participants |

Respondents taking part in the survey totalled 92, representative of all sectors and sizes. In percentage terms, the most representative is the manufacturing sector with 42.9%, followed by the wholesale and retail trade with 18.7%. Transport, storage and communication and the construction sectors are third and fourth in the classification. In terms of size, the manufacturing sector is the most representative, particularly among medium-sized firms, followed by the micro segment. Small

businesses are second in ranking for the manufacturing sector. The wholesale and retail trade segments are mostly represented by both micro and small firms. 'Others' are sectors representative of different types of businesses not falling within a specific category, to include both the micro and small segments. Tables 9 and 10 provide a clear illustration both in percentage terms and in terms of size and sector classification.

**Table 9: Respondents' classification by geographical format to both sector and size**

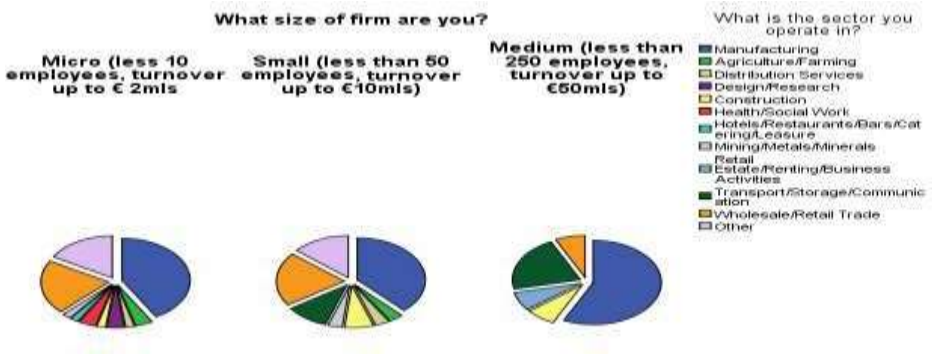



**Table 10: Respondents' classification percentage value by sector and size**

| **Sector – What sector do you operate in?** | **Firm Size – What size of firm are you?** | | | **Total** |
|---|---|---|---|---|
| | **Micro** (fewer than 10 employees, turnover up to € 2mls) | **Small** (fewer than 50 employees, turnover up to €10mls) | **Medium** (fewer than 250 employees, turnover up to €50mls) | |
| **1** Manufacturing | **41.7%** | 37.9% | **57.1%** | **42.9%** |
| **2** Agriculture/Farming | 4.2% | 3.4% | | 3.3% |
| **3** Distribution Services | 2.1% | 3.4% | | 2.2% |
| **4** Design/Research | 4.2% | | | 2.2% |
| **5** Construction | 2.1% | 6.9% | 7.1% | **4.4%** |
| **6** Health/Social Work | 4.2% | | | 2.2% |
| **7**Hotels/Restaurants/Bars/Catering/Leisure | 2.1% | | | 1.1% |
| **8** Mining/Metals/Minerals | 2.1% | 3.4% | | 2.2% |
| | | | | Continue on next page |

| Sector – What sector do you operate in? | Firm Size – What size of firm are you? | | | |
|---|---|---|---|---|
| | **Micro** (fewer than 10 employees, turnover up to € 2mls) | **Small** (fewer than 50 employees, turnover up to €10mls) | **Medium** (fewer than 250 employees, turnover up to €50mls) | **Total** |
| **9** Retail Estate/Renting/Business Activities | | | 7.1% | 1.1% |
| **10**Transport/Storage/Communication | | 10.3% | **21.4%** | **6.6%** |
| **11** Wholesale/Retail Trade | **20.8%** | **20.7%** | 7.1% | **18.7%** |
| **12** Other (e.g. carpenter, electrician, metalworker, stone worker, painter, pre-press, press, engineering outsourcing, artisan, recycling, restore doors & windows) | **6.7%** | **13.8%** | | 13.2% |
| **Total** | 100.00% | 100.00% | 100.00% | 100.00% |

## 3.14 Case study

The research, as highlighted by this chapter, is principally based on Italy as a single case study strategy. Where a comparative analysis might be considered necessary to add validity and reliability to the results, in some cases, a combination to two minor cases centred on the United Kingdom and Germany are applied. The survey, as illustrated by the previous section, provides evidence to the research to uncover actors' perceptions and opinions of SMEs' access to credit elements.

The strategy that best assimilates and answers this study objective is represented by a single case study with 'embedded units of analysis' (Hartley, 2004; Bryman and Bell, 2011 and Yin, 2009, p.46). This allows for understanding the nature of the phenomena by means of an exploration of social entities, to inductively

discover elements and encapsulate the essence of the research problem (Yin, 1989; Merriam, 1998 and Bryman and Bell, 2011).

As indicated by Yin (2014), an ‘empirical social enquiry’ is required to follow four principles, as shown in Figure 39. These are to include validity and reliability values. The four tests are represented by ‘constructing validity’, ‘internal validity’, ‘external validity’ and ‘reliability’.

Each of these steps is subdivided into ‘case study tactic’ and ‘phases of the research’ when applied. With the exception of ‘internal validity’ applied to an explanatory study, all others apply to this research. To construct validity and therefore “develop a sufficiently operational set of measures” (Yin, 2014, p.46), this research applies both multiple sources of evidence through triangulation, as best illustrated previously in this chapter, and chain of evidence. Both steps occur during the data collection phase. A chain of evidence is created by providing sources of data to allow readers to read original documents. Questions posed by the researcher in developing the case study are exposed in the ‘protocol’. These questions should be able to address gaps as underlined by the literature review (section 2.7) and guides to the research objectives. This process allows for tracing the research steps. To be able to ensure validity it is essential to outline SMEs’ access to credit themes to determine related theories and views and to identify those processes or decisions that affect notions (Yin, 2014, p.46).

External validity is achieved by way of a single case study strategy to enquire into embedded elements and through a comparative examination of countries on specific themes by way of a replication logic mode. To ‘construct validity’, evidence from multiple source data collection and triangulation are adopted. This is representative of the data collection phase together with the ‘chain of evidence’ as part of the data gathering process to address the set objectives and to maintain trace and control over the different research steps. Internal validity, as part of data analysis, is realised through ‘pattern matching’, ‘explanation building’, rival explanation’ and ‘logic models’, all ascribable to a quantitative method and an explanatory study not applicable to this study (Yin, 2014).

In the case of reliability, case study protocol and case study database are protagonists of this phase and part of the data collection research step (Yin, 2014). The case study protocol considers these steps necessary in preparing to collect

data (Yin, 2014). In the case of this research, the data to be collected is represented by multiple sources of documentation and survey distribution. ‘Case study protocol’ is fully exposed later in this chapter. A case study database includes all of the considered and analysed raw data and the tabulation of quantitative data, charts or table formats of statistical data analysis. In addition, it includes a bibliography to trace sources of information of presented evidence (Yin, 2014). In the case of this research all of these elements are preserved in a Word/Excel format. The extent and the provenance of this research’s multi-data collection, originating from different sources, renders it easier to store information in Word/Excel formats.

## 3.15 Case study protocol

A step in constructing a case study is to design a protocol. This is to add a reliability element to the research (Yin, 2009). This research’s protocol synopsis is offered in Figure 37 and includes four different steps: ‘overview of the project’, ‘data collection procedures’, ‘data collection questions’ and the ‘guide for the case study report’ (Yin, 2014, pp.85-86).

An ‘overview of the case study project’ includes objectives, issues and relevant reading (Yin, 2014, pp.86-88). The research issue regards SME perspectives and a critical review of access to credit. The set objectives, already fully exposed at the beginning of this chapter, are very briefly redrafted here for completeness. As already underlined, there are four main objectives around which this research is orientated. Identified objectives are the focal point for the researcher’s posed questions throughout the study and represent the basis for the case study enquiry. Relevant reading is represented by an extensive bibliography at the end of the research and sources in the report text.

‘Data collection procedures’ relate to the administrative elements necessary in order to proceed in collecting meaningful data. A full consideration of these elements, such as resources, is essential in evaluating the extent of the research that can be completed (Yin, 2014, pp.88-89). In the case of this research, resources play an important role in the decision-making process. In fact, the study being placed in a European Union context makes it seem necessary to critically review aspects by analysing countries placed within this geographic area.

**Figure 37: Case study approach and phases applied to the research – Yin, 2009, p.41**

| Tests | 'Case Study Tactic' | 'Phases of research' | This Research (√ = yes) |
|---|---|---|---|
| Construct Validity | * Secondary data – multiple source (Triangulation: researcher, data, method and theory – cross- checking sources of evidence)<br>This is to collect evidence through documentation, archival records and primary data – questionnaires)<br>* Chain of evidence – data format and planning to trace research steps (footnotes, sources and questions) – Yin, 2009, pp.41-42 and Yin, 2014 pp.86,127-128) | Part of data collection<br><br>Part of data collection | √<br><br>√ |
| Internal Validity | * Pattern matching (comparison of findings with predictions)<br>* Explanation building<br>* Rival explanation<br>* Logic models | All part of data analysis | Not applicable to this study as not explanatory but exploratory and descriptive (Yin, 2009 and Yin, 2014) |
| External Validity | * Use theory as single case study<br><br>* Use replication logic (where necessary) | Part of the research design<br>Part of the research design | √ Italy<br><br>√ United Kingdom and Germany – two minor cases studies only for comparative purposes |
| Reliability | * Case study protocol (prepare to collect data – multiple source to documentary analysis – distribution of questionnaire)<br>* Case study database. This includes: raw data, tabulating quantitative data, statistical data analysis in chart or table format, bibliography – in Word/Excel format | Part of data collection<br><br>Part of data collection | √<br><br>√ |

Source: adapted from Yin, 2014, pp.45, 84-94, 118-123, 123-126, 143

A selection of more than one country would favourably contribute to providing a comparative analysis and would add value in terms of reliability and validity. However, this line of strategy requires a large amount of resources both in terms of time and financial means. The limits imposed by both factors require a reduction in country selections and for the research to be based on secondary data and on a survey-type strategy as primary data collection. Connections are an important element that impact on techniques for data collection through questionnaires or interviews. A survey-type approach such as the one applied by this research, although requiring time to design, is a low-cost tool compared to interviews. These require face-to-face contact with participants with inevitable financial implications for travelling. In this part of the protocol a timetable is set to program various steps for the research. Specifically, the research requires a considerable amount of time to collect, screen and evaluate secondary data from multiple sources of evidence and to design, distribute and analyse primary data through a survey-type strategy. The possibility of having to implement information as the study develops is taken into consideration. From 2010 to 2015 data for this research was collected, screened, evaluated and analysed to answer the study objectives.

‘Data collection questions’ are a relevant element to guide the design of the case and survey the collection of data and the subsequent steps for screening and evaluation. These questions developed from the set objectives, which are the central focus of the research aim (Yin, 2014, pp.89-93). There are three types of questions. The first type of question is directed towards participants through the questionnaire to enquire into the type of finance, access to credit, bank relationship, specifics of microcredit, and general questions regarding European Union promotions of credit-type loans. A full questionnaire as a comprehensive guide is given at the end of this research in Appendix C. The second type is represented by those questions posed to develop the case study and enquire into the embedded elements of the study. In the case of this research, they refer to three specific themes, which are ‘elements of SMEs’ access to lending’, ‘lending technologies’ and ‘local lending’. These questions, as fully illustrated by Figure 26, embrace different concepts and require a careful process of screening and evaluation of multiple sources of information. Another type of question includes those which can be applied to the whole study regardless of the specific case study or embedded elements (Yin, 2014, pp.90-91). In the case of this study this

can refer to communication effectiveness, interaction patterns and causality or causation relationships to link the cause and the outcome and/or influences and effects (Saldana, 2013).

A ‘guide for the case study report’ (Yin, 2014, p.93) is an outline of the research and is presented in the next section.

### 3.15.1 The case study report briefly outlined

A full synopsis is offered in Figure 38 to provide the basis for this case study report, portraying the process, the structure and strategy application. The report is based on a case study analysis to address three main themes or ‘embedded units’ of analysis to respond to the posed objectives. To reiterate, these are to focus on ‘elements of SMEs’ access to lending’, ‘lending technologies’ and ‘local lending’.

The research process for empirical enquiry through case study requires different steps. This is to answer the research problem and address the objectives. The first step is a literature review to evaluate existing research, to critically identify elements to be examined. It follows a process to uncover these elements representing the basis of the study and to establish which objectives may be most appropriate to address the research problem. The research is organised on the basis of those identified elements through a review of multiple sources of evidence. The application of a theoretical lens is represented by the transactional analysis. A conceptual framework is drawn taking into considerations all the above aspects. Gaps are identified. Data is collected on the basis of these recognised aspects which may be able to respond to the research objective and to address the phenomena. Identified information is analysed through selected coding modes, fully addressed in the next section. Actors’ perceptions and opinions of the phenomena are a necessary aspect of the analytical process. This is to add value, enhance validity and reliability and corroborate or contradict findings based on secondary data from multiple sources of evidence through ‘triangulation’. The purpose is to understand the social world to address the research’s considered problem. Thus, to enquire into elements affecting SMEs’ access to credit, to uncover occurrences which might impact on the liquidity availability or willingness to lend by an analysis of ‘SMEs’ perspectives and a critical review of access to credit’. The aim is to inductively construct theory to explain data by generating inferences and providing possible solutions.

**Figure 38: Case study protocol**

| **Stages** | | |
|---|---|---|
| Overview – Case Study Project | *** Objectives:**<br>1 - Hindering aspects to lending (elements of lending and banks' contribution)<br>2 - Approaches to lending<br>3 - Local banking (effects to access credit and effectiveness)<br>Uncover communication effectiveness and causation to address the research gaps<br>*** Issues:** SMEs' perspective and critical review of access to credit<br>*** Relevant Reading** | Identified objectives are the focal point of the researcher's posed questions throughout the study<br><br>Bibliography included and fully referenced throughout the research report |
| Field Study Procedures | *** Administrative Elements** (e.g. resources to complete)<br>*** Connections**<br>**Data Collection**<br>**Timetable** | √<br><br>√ **-** survey application strategy<br>√ **-** years 2010/2015<br>continuous process to data collection, screening, evaluation, analysis of: multiple sources evidence – reports, journals, official government sites, official statistical offices, official sources (e.g. European Commission, European Central Bank, Eurostat, Italian statistical office) and archival records – European Central Bank Surveys on SMEs' access to credit and bank lending and on surveys about SMEs' perceptions (e.g. BDRC Continental 2012 – Bank of Italy: Alberato et al., 2008; Alberato et al., 2010)<br>Years 2013/2015<br>***** survey collection (Italy and the United Kingdom)<br>***** 2015 time allowed to add to data collection<br><br>Continued on page 153 |

| **Stages** | | |
|---|---|---|
| Case Study<br><br>Questions - fully indicated by the literature chapter (section 2.7) | Questions related to:<br><br>(1) Elements of SMEs' access to lending<br><br>(2) Local Lending:<br><br>(3) Lending technologies | Questions to direct case study strategy – questions stemming from identified gaps to address objectives. They are an integral part of this study, from the collection of data to the data analysis stages.<br><br>Survey – to collect participants' perceptions and opinins of different themes as drawn by the research enquiry and literature review.<br><br>Full survey questions in Appendix C. |
| Guide for the Case Study Report | An outline | A brief account of case study report presented in the next section |

Source: adapted from Yin, 2009, p.41 and Yin, 2014, p.45

The research structure and strategy are related to the addressed objectives. The intention is to uncover these elements and occurrences in SMEs' access to credit. For this purpose, three embedded units, as already specified, are selected to best assimilate this research's aim and objectives. A synopsis of the research process, structure and analysis is presented in Figure 39**.**

Elements affecting SMEs' access to credit are questioned. This is through an analysis from different sources, multiple sources and archival records, to offer a comparative analysis through a replication logic process whereby Italy represents the principle case and the United Kingdom is a secondary source for comparative purposes. Considering that the survey includes the United Kingdom the selection appears consistent. Replication logic is a duplication of the principle case to either substantiate or propose different views of applicable procedures and processes (Yin, 2009, p.54). In the case of this research, this application is a way to uncover occurrences over decisions and processes relating to SMEs' access to credit and to generate inferences. This process can assist in validating findings and it is mostly applicable in the study in terms of approaches to lending and possible constraining elements (Yin, 2009).

An objective is to address the types of lending approaches adopted by banks in the context of SME lending to uncover access to credit elements within these contexts. The focus is, therefore, to uncover which approaches to lending might be most favourable for SMEs. To achieve these ends, the research analyses Italy as the critical case due to the local and decentralised banking structure. As already envisaged, secondary cases are represented by the United Kingdom and Germany as they present different approaches to lending and, therefore, lend themselves to comparative purposes to best analyse and appreciate findings. The three countries – Italy, the United Kingdom and Germany – are in fact representative of relationship and transactional lending kinds of approaches and, therefore, offer a good platform for understanding occurrences. This is a basis that lends itself to comparative analysis in understanding which approach might be most favourable for SMEs' access to credit. Inferences are drawn by assessing the intentions behind different approaches' applications and SMEs' perceptions and opinions. An analysis based on the application of approaches to lending and possible uncovering elements, enhancing or hindering lending activities, might

indicate these discouraging aspects of credit availability and allocation from banking institutions for SMEs.

A relevant part of the research is based on an analysis of Italy, as a single 'critical case' study, to uncover whether local lending may be an effective practice to encourage SMEs' access to credit practices. An enquiry based on a single unit of analysis to explore approaches to lending and hindering elements is thereafter exposed through a single case study of a 'critical case' represented by Italy. The element of 'proximity' is identified as a relevant aspect in the application of a relationship lending activity to the assessment process in SME lending. In this respect, relevance is assumed by geographical structure based on industrial district/cluster approaches. This part of the research is not intended to be a comparative analysis between countries. It rather concentrates on the relevance proposed by the element of proximity, where local business agglomerates, with a predominance of SMEs, can create a favourable synergic environment for collaboration between different actors, including financial institutions. As best exemplified by the literature review in Chapter Two, these synergic systems may enhance development and wealth creation. Italy, with a preponderance of SME businesses, value added and productive constituents, lends itself to this type of study. Italy is based on industrial districts/clusters (Porter, 2008) together with an established cooperative banking structure at the national level. These established agglomerate structures provide a good source of data analysis for a single case study strategy-based research.

Elements drawn from the above three embedded elements are relevant to uncover communication effectiveness and patterns and causation to address gaps.

The research will discuss findings to draw inferences and to study the topic to provide a distinctive idiosyncratic view of SMEs' access to credit. A script matrix as the relevant element of a Transactional Analysis theory is drawn and a model of SMEs' access to credit is advanced. In the light of the research findings, it further offers possible propositions through activities to contribute to the assessment of SMEs, to possibly address those uncovered hindering elements.

**Figure 39: Synopsis of the research process, structure and analysis**

<table>
<tr><th>Research Objective</th><th>Process of Data Collection</th><th>The Research Structure (A + B)</th><th>Strategy (C + D)</th></tr>
<tr><td>(1)<br>Hindering aspects of SMEs' access to credit (SMEs' Perceptions/ opinions essential element)</td><td rowspan="3">(A)<br>Literature review<br><br>Review of existing research to critically identify:<br>*elements to be reviewed<br>*possible gaps<br><br>(B)<br>The research is on the basis of:<br>Identified elements for reviewing multiple sources evidence and archival records<br><br>(C)<br>Data analysis:<br>* triangulation (multiple sources of evidence and actors' perceptions and understanding of the phenomena)<br><br>(D)<br>* Understand the social world-considered problem<br>* Inductively construct theory to explain data<br>* Generate inferences<br>* Generate possible solutions</td><td>*Constraining elements in SMEs' lending</td><td>* Secondary data analysis (archival data) of:<br>Italy, and the United Kingdom,<br>and Germany (togli)<br>* Primary data – survey on lending (Italy and United Kingdom)<br>* Comparative study</td></tr>
<tr><td>(2)<br>Banks' application for approaches to lending to SMEs</td><td>Methodology for lending:<br>• Which most benefits SMEs' lending?<br>• How?</td><td>* Italy as a critical case<br>* Secondary cases to comparative purposes – the United Kingdom and Germany<br>* Secondary data analysis<br>* Primary data – survey on lending (Italy and United Kingdom)<br>* Comparative study</td></tr>
<tr><td>(3)<br><br>Local banking effects</td><td>* Italy – the basis of a district/clustering synergic structure emphasis on: manufacturing, cooperative system and Confidi<br><br>* Local lending; its effects on SMES' access to credit - importance in favouring SMEs' access to lending</td><td>* Italy as a critical case<br>* Based on archival data<br>* Primary data – survey on lending (Italy)<br>* Single case study</td></tr>
<tr><td colspan="2">Communication Effectiveness (results)<br>Communication Patterns (results)</td><td colspan="2">Discussion (E)</td></tr>
<tr><td colspan="2">Causation (results)</td><td colspan="2">Possible proposition to benefit SMEs' assessment (F)</td></tr>
</table>

Sources: Yin, 2009 and Yin, 2014

## 3.16 Basis of the research data analysis

In the application of a case study strategy, data is analysed by way of different 'coding methods'. Coding methods are divided into 'first cycle' and 'second cycle'. The first are methodologies used to gather data and are applied in the initial process of coding. 'Second cycle coding methods' are applied in the second phase of coding and follow the first cycle stage (Saldana, 2013). In this second stage of coding, there is a need to analyse data to follow the first step coding process in a way that is "classifying, prioritizing, integrating, synthesising, abstracting, conceptualizing, and theory building" (Saldana, 2013, p.58). A synopsis of applied coding cycles for this research is offered in Figure 40 as follows.

**Figure 40: Methods applied to this research**

<table>
<tr><th colspan="3">Single case study – Italy</th></tr>
<tr><td colspan="3"></td></tr>
<tr><td colspan="3">Embedded element or unit of analysis:<br>Elements of SMEs' access to lending (comparative study) – categorise and compare data -<br>Objective: to research possible aspects hindering SMEs' access to credit</td></tr>
<tr><td colspan="2">First Cycle</td><td>Second Cycle</td></tr>
<tr><td colspan="2">Descriptive Coding<br>Evaluating Coding<br>Magnitude Coding</td><td>Pattern Coding<br>Longitudinal Coding</td></tr>
<tr><td colspan="3">Embedded element or unit of analysis:<br>Lending Technologies (comparative study) – categorise and compare data -<br>Objective: to research banks' application of approaches for lending to SMEs</td></tr>
<tr><td colspan="2">First Cycle</td><td>Second Cycle</td></tr>
<tr><td colspan="2">Descriptive coding<br>Evaluating coding<br>Attribute coding<br>Magnitude Coding</td><td>Pattern coding</td></tr>
<tr><td colspan="3">Embedded element or unit of analysis: Local Lending Effects and related Effectiveness – categorise and compare data -<br>Objective: to research local lending (proximity element)</td></tr>
<tr><td colspan="2">First Cycle</td><td>Second Cycle</td></tr>
<tr><td colspan="2">Descriptive Coding<br>Evaluating Coding<br>Magnitude Coding</td><td>Pattern Coding</td></tr>
<tr><td colspan="3">Gaps vs questions</td></tr>
<tr><td>Gap</td><td>Questions</td><td>Method - Coding Applied</td></tr>
<tr><td>Gap 1 (fully illustrated in literature chapter section 2.4)</td><td>Phase One - Based on SMEs perspectives (survey):<br>Q1: What is the type of finance to which SMEs depends on?<br>Q2: What are the types of activities to which finance is assigned?</td><td><br><br>Survey<br><br><br>Survey</td></tr>
</table>

Continue on next page

| | | |
|---|---|---|
| | Q3: Does access to credit represent a problem?<br>Q4: Is loan-type credit relevant?<br>Q5: Do SMEs rely on bank loans and through which type institutions?<br>Q6: What type of information is required to access credit?<br>Q7: How rigorous are banks on information required?<br>Q12: Are SMEs aware of European Union promotion on the application of credit type loans?<br>Q13: What are the main recognised problems linked to access to credit?<br><br>**Phase Two – Based on Banks (bank lending survey) and others bodies results and SMEs' perspective (survey):**<br>Q14: What elements might hinder liquidity availability and willingness to SMEs' lending?<br>Q15: What are the characterising elements to SMEs' lending?<br>Q16: What are the elements which might affect Banks' distribution and SMEs' lending?<br><br>**Phase Three - Communication effectiveness (based on phase one and two results):**<br>Q17: How effective is communication between Banks and SMEs? How effective is communication between European Institutions and SMEs?<br><br>**Phase Four - Causality (based on phase one, two and three results):**<br>Q18: What are the effects on SMEs' access to credit? | Survey<br>Survey<br>Survey<br>Survey<br>Survey<br>Survey<br>From Survey open questions– application of Magnitude Coding<br><br>Descriptive Coding<br>Evaluating Coding<br>Magnitude Coding<br>Pattern Coding<br>Longitudinal Coding<br>Survey<br><br>Transactional Analysis models (fully illustrated by the literature review section 2.5) – OK Corral Model<br><br>Causality / Causation - link the cause and the outcome and/or influences and effects (Saldana, 2013) |
| Gap 2 (fully illustrated in literature chapter section | **Phase One - Based on SMEs perspectives** | Continue on next page |

| | | |
|---|---|---|
| 2.4) | **(survey):**<br>Q8: Do SMEs have a bank relationship?<br>Q9: What is the opinion on the relationship?<br>Q10: What type relationship do SME apply favour (multi-banking or relationship building)?<br>Q11: What is the perception on the effects of a relationship lending application on loan costs and terms?<br>Q13: What are the main recognised problems linked to access to credit?<br><br>**Phase Two – Based on Phase one and on an excursus on approaches to lending** (three countries comparison with different approaches to lending):<br>Q19: What elements directs banks towards the choice of an approach to lending?<br>Q20: What is the perspective and the opinion of SMEs considered elements on access to credit?<br>Q21: What lending technologies is applied in Italy?<br>Q22: What are actors' thoughts over the two phenomenological realities?<br><br>**Phase Three (local lending):**<br>Q23: What type lending is most representative?<br>Q24: What is the importance assigned to lending?<br>Q25: What are the types of banks through which SMEs apply for loans and micro-lending?<br>Q26: What elements are identified and addressed?<br>Q27: What are the effects on SMEs' access to credit? | Survey<br>Survey<br>Survey<br>Survey<br>From Survey open questions– application of Magnitude Coding<br><br>Descriptive coding<br>Attribute coding<br>Evaluating coding<br>Pattern coding<br>Survey<br>Transactional Analysis – communication dynamics based on ego states<br><br>Descriptive Coding<br>Evaluating Coding<br>Pattern Coding<br>Magnitude Coding<br>Survey<br>Continue on next page |

| | | |
|---|---|---|
| | **Phase Four - Based on Phase one, two and three:**<br>Q28: What is the most effective lending technology that can serve SMEs?<br>Q29: What is the lending technology that might best address actors' mutual satisfaction? | Causality / Causation - link the cause and the outcome and/or influences and effects (Saldana, 2013) |
| **Idyosincratic perspective** | | |
| cognitive mapping analysis - illustrates the linkage between attributes, by gathering concepts, thoughts, ideas and actions, to draw on all relevant elements | | |

Source: Saldana, 2013, p.59 and Miles et al., 2013, pp.86-92 and Bryson et al., 2004

In all three embedded cases of analysis, 'descripting coding' takes place as first cycle coding method is applied. Descripting coding can be considered the first step in qualitative research as it involves the initial screening of data from different sources by coding or grouping together and labelling themes, occurrences or evidence according to the objective and questions posed by the researcher. Therefore, the intention is to categorise data by using different formats such as matrices and tabular layouts to chart quantitative-type data. It is recognised by the literature as an essential step in second cycle coding (Saldana, 2013 and Miles et al., 2013).

Another type of coding which is applied to the study is 'evaluating coding'. This is, again, part of the first cycle coding method and is applicable to the research over 'local lending effectiveness', 'approaches to lending' and 'elements of SME lending'. This is described as the "application of (primarily) non-quantitative codes to qualitative data that assign judgment about the merit, worth, or significance of program or policy" (Saldana, 2013, p.119). This step involves collecting data in a systematic way to appraise activities, processes and decisions. It follows 'descriptive coding' to further categorise data (Miles et al., 2013). This coding technique applies not only to documentary data and archival data but also to survey information (Yin, 2014, p.119). This coding method represents an important step in this research's analytical process and goes hand in hand with 'descriptive coding'.

In the study of 'lending technologies', to add to 'descriptive and evaluating' coding, 'attribute coding' is applied as a first cycle coding method. In attribute coding, a 'notation' is applied to classify a specific theme, notion or concept. It complements descriptive and evaluating coding to further classify information. It is an effective approach for narrowing down and classifying extensive data from different sources and drawing occurrences and inferences (Saldana, 2013 and Miles et al., 2013).

To uncover possible aspects of the elements of SME lending and bank contributions, to add to 'descriptive coding' and 'evaluated coding', the analysis is complemented by a 'magnitude' type coding method. As already indicated in the survey section, magnitude coding is a way of attributing a label or code to a specific occurrence to indicate a specific characteristic; for example, frequency or intensity (Saldana, 2013 and Miles et al., 2013). This applies to both quantitative and qualitative data but is "appropriate for descriptive qualitative studies that include basic statistical information such as frequencies or percentages" (Saldana, 2013, p.73 and Miles et al., 2013). In the case of this research, magnitude coding is applied to specific indicators such as value added, banks' willingness to provide loans, interest rates, cost of credit and loan needs by assigning positive, neutral, negative or deteriorating labels on occurrences over a period of time.

Second cycle methods are represented by different coding methods. 'Pattern coding' applies to all three embedded cases. Pattern codes are "explanatory or inferential codes, ones that identify an emergent theme, configuration, or explanation" (Saldana, 2013, p.210). A pattern code leads to condensing data collected such as themes or occurrences into 'single meaningful units of analysis'. Different codes can, therefore, emerge from this type of analysis (Saldana, 2013). Processes facilitate the categorisation of data in themes, to uncover occurrences and to draw inferences and valid, meaningful findings by adding value in terms of validity and reliability.

In the case of 'elements of SMEs access to lending', 'longitudinal coding' adds to a 'pattern coding' approach. This approach allows for comparing data across time through a matrix approach to categorise and compare information. "Long-term quantitative analysis of change examines statistical increases, decreases, constancy, and so on in selected measured variables of interest" (Saldana, 2013, p.234). The process also applies to qualitative-type information by annotating

categorised data with ‘increases, decreases and constancy’ (Saldana, 2013, p.234). Seven different categories apply to this research matrix information building. Those are ‘increase and emerge’, ‘cumulative’, ‘surges, epiphanies and turning points’, ‘decrease and cease’, ‘constant and consistent’, idiosyncratic’ and ‘missing’ (Saldana, 2013, p.237). Increase and emerge pertain to both qualitative and quantitative data such as statistically summarised information. This is projected in understanding and drawing occurrences that may result over time. Cumulative indicates constant effects or aspects emerging through the case study analysis. Surges, epiphanies and turning points, as the terms tend to indicate, specify significant occurrences over a period of time which result in alterations or changes in attitudes and process decisions. Decrease and cease indicate changes over a period of time such as willingness to lend, lending availability or credit standard tightening in terms of SMEs. It includes quantitative data such as that from recognised statistical offices and qualitative information from case study analysis. Constant and consistent represent those occurrences that do not change over time: for example, loan needs. Idiosyncratic describes those embryonic non-predictable facts that are unrelated but which emerge during the course of the study. Missing refers to those items or facts that are not available or do not exist. From the seven above-described categories, the researcher is able to contextualise conditions in an aggregated format, and underline occurrences that might influence or affect changes.

The longitudinal coding strategy applies to the discussion chapter. Empirical results and considered reviewed elements through a descriptive, evaluating and magnitude coding as a mean of categorisation and explanation building are therefore displayed. This is to indicate those occurrences that can either oppose or harmonise with theories and to identify possible further elements and gaps (Saldana, 2013). The coding process for data collection and analysis, representing the first cycle, is based on an analysis of the information through a ‘descriptive, evaluating and attribute’ coding methodology approach. Here descriptive data is summarised and evaluated to draw patterns to be displayed in the form of networks and/or models (Miles et al., 2013 and Saldana, 2013). The auxiliary of the ‘data display inductive approach’, where information is reduced in the form of either ‘networks’ or ‘matrices’, can be a facilitating tool in the analytical process (see Saunders et al., 2009, p.503 and Miles and Huberman, 1994, pp.10-11). In fact, this methodology allows for summarising and evaluating information in order

to draw patterns (Miles et al., 2013; Saldana, 2013; Saunders et al. 2009 and Miles and Huberman, 1994). Collected evidence is to be analysed by way of the 'explanation building' technique as the attempt is to develop a gradual understanding of the phenomena as the research develops (see Yin, 2009, p.141). Furthermore, it allows for probing data by way of a data display inductive approach, whereby information is aggregated, following 'iterations' display data through a coding process strategy (Saunders et al. 2009; Miles and Huberman, 1994; Miles et al., 2013 and Saldana, 2013). This structured strategy is effective for reducing and analysing data to identify common themes and relationships, to unveil possible discrepancies and to recognise best practices.

Methods and coding to answer questions related to identified gaps do therefore change accordingly. Survey answers represent the basis of the empirical results. These are compared to archival data from authoritative bodies to compare and contrast. Transactional Analysis provides the ground to answer the main posed questions to address gaps. Causality or causation to link the cause and the outcome and/or influences and effects, intended as the qualitative version of cause and effects and 'ideal' to discover means to determine occurrences, (Saldana, 2013 and Morrison, 2009 cited in Saldana, 2013) are relevant to address gaps. Munton et al (1999 cited in Saldana, 2013 pp. 163) posits that causation is relevant to expose "what people believe about events and their causes…an attribution is an expression of the way a person think about the relationship between a cause and an outcome" and "can consist of an event, action or characteristics" An attribution considers the cause of occurrences to provide an explanation of reality by highlighting the relationship between causes and outcomes (Saldana, 2013 pp. 164). The aspects that a causality analysis or causation addresses, as applied by this study, relates to "internal and external" as occurrences are influenced by different determinants, "global or specific" as incidents may arise and affects specific phenomena, "personal or universal" as circumstances may be deriving or affecting different actors and "controllable and uncontrollable" based on individual perceptions over dominants effects. (Saldana, 2013 pp.164-165) Actors' perspectives are relevant to this type analysis (Miles and Huberman, 1994 cited in Saldana, 2013). 'Flow charts' can be applied effectively to display causality (Saldana, 2013).

Based on the above considerations, it is relevant to analyse all elements to uncover and, therefore, to provide an idiosyncratic perspective. This applies to the discussion chapter in drawing inferences. A synoptic review through cognitive mapping analysis therefore illustrates the linkage between attributes to draw on all relevant elements. In this context, it might be useful to provide a short illustration on the cognitive mapping tool and how it might be a positive analytical instrument within this context.

Cognitive mapping is effectively a process applied actively throughout the research. It is effectively a useful tool which assists in gathering concepts. It may be considered an effective tool to gather together thoughts, ideas and actions. In fact, as Bryson et al. (2004, p. xii) highlight, “Causal mapping is therefore a technique for linking strategic thinking and acting, helping make sense of complex problems, and communicating to oneself and others what might be done about them.”

Elements and attributes are drawn from findings through the use of a cognitive map. Arrows connect concepts together. To best exemplify, a brief explanation of the ‘mapping’ structure follows. Lines represent connective elements or attributes. Arrows link concepts and indicate visually all distinctive or common attributes. They provide linkages to indicate subordinate elements which can be either positive or negative. In fact, arrows are a representation of follow-up processes, from concepts to elements and attributes. Red arrows with a minus sign indicate negative effects. This process, allows the portrayal of a clear representation to offer a comprehensive observation of the research holistically (see Bryson et al., 2004).

## 3.17 Chapter summary

For those readers more interested in a research synopsis over the design and considerations, this is offered in Figure 41 at the end of the section.

To summarise, this is a subjective-type of research based on an interpretative stance to allow a study of a contemporary phenomenon to inductively uncover elements of SMEs’ access to credit. The perception and knowledge of actors, in the specifics of SMEs, in terms of the process and availability of credit from banks, is relevant in drawing inferences. Due to the nature of the research, as fully

explained in this chapter, the study is both descriptive and exploratory and follows, primarily, a qualitative methodology. To follow an exploratory-type study, the strategy is based on a single case study, with Italy representing the critical case. A case study is an empirical enquiry typical of qualitative research, offering flexibility of study orientation to understand occurrences surrounding SMEs' access to credit. To add validity, for comparative purposes, two minor cases are at times applied. These are represented by the United Kingdom and Germany. The application of a mixed method introduces a quantitative approach to the study. This is through the application of a descriptive survey aimed at uncovering occurrences. A survey adds value by providing actors' perceptions and knowledge about the phenomenon being investigated. Convergence of evidence or 'triangulation' is, therefore, provided by way of three elements which are documents, archival records and survey. Data from multiple sources is analysed through different coding methodologies to best assimilate information and provide meaningful results. In this case, the application of first and second cycle coding and the reduction of information in networks or matrices is found to be an effective process to uncover occurrences and draw inferences. In the case of the survey, data is summarised statistically through the use of the SPSS package. Here, data is analysed through first cycle coding methods. Data reduction is applied by way of a matrix form. Transactional analysis models and causality are applied to address gaps and to answer questions. Here data reduction is applied by way of flow charts. As illustrated in this chapter, relevance is assumed by the 'time horizon' element. In the case of this research, both cross-sectional and longitudinal approaches apply.

Empirical results to address gaps and answer displayed questions are presented in the next chapter.

**Figure 41: Synoptic on research design and considerations**

| Design (Steps) | Research application & orientation | Purpose | Application strategy and technique | Justification |
|---|---|---|---|---|
| **Philosophical assumption** | Subjective | Exploratory | * Literature review<br>* Documentary – multiple sources (e.g.: raw data)<br>* archival records (e.g.: surveys, reports, opinions)<br>* Single case study with embedded elements – two minor case studies for comparative purposes | * Empirical enquiry representative of a qualitative-type research<br>* Offers flexibility of orientation<br>* Offers an understanding of the phenomena through uncovering occurrences surrounding SMEs' access to credit and drawing inferences |
| **Epistemological approaches** | Interpretative stance | | | |
| **Purpose** | Descriptive | | | |
| | Exploratory | | | |
| **Approaches** | Inductive | | | |
| **Method** | Prevalence qualitative – application of mixed method though a descriptive survey | | | |
| **Strategy** | Case study – exploratory study based on: single case study – holistic, embedded elements of study and two minor cases for comparative purposes | Descriptive | * Descriptive survey<br>* Evaluation and synthesis of descriptive data | Collecting actors' data:<br>1 - as a means to better understand the phenomena<br>2 - to understand perceptions<br>3 - to better uncover occurrences<br>4 - to substantiate and validate qualitative data analysis<br>5 - to validate or contradict findings based on secondary data analysis |
| | | = | | |
| | Survey – descriptive study – data summarised statistically though SPSS software | Triangulation (convergence of evidence) | | |
| **Data collection techniques** | Questionnaire | Explanatory | Relationships between variables | To study the phenomena quantitatively through measuring variables – causal relationships between them – not reflective of this research assumption, stance and purpose |

Source: see Saunders et al., 2009 and Hair et al., 2007

# Chapter 4: Empirical Results

## 4.1 Introduction

This chapter aims to present the results to provide answers to the research questions and to address the identified gaps.

The chapter order follows the gaps and the related questions as presented in the literature review chapter. The analysis follows different methods to address questions as fully displayed in the methodology and data chapter.

The chapter is divided into five sections. Section Two focuses on SMEs' perspectives and provides the survey results. Section Three addresses elements of SME lending. The analysis directs towards liquidity availability and willingness to lend, on characterising elements and on the elements affecting SMEs' access to lending. Results to underline communication effectiveness and causality follow. Aspects of lending technologies are evaluated in Section Four. The PAC ego state is applied to understand actors' thoughts on the two phenomenological realities. Local lending aspects are assessed to understand the effects on SMEs' access to credit. Causality results are presented. The last section presents conclusions.

## 4.2 Results of SMEs' perspective analysis

As envisaged in the methodology and data chapter, the Venetian and Abruzzo areas for Italy and the South East region for the United Kingdom were selected, to form the basis of data collection and analysis. Questions are labelled using different themes, to which values are ascribed to allocate 'descriptive codes'. To summarise, themes are subdivided in terms of 'population sector', 'population size', 'access to credit', relationship banking', 'microcredit' and 'European Commission promotion of lending activities'. This section provides an analysis by themes to illustrate issues relating to SMEs' perceptions and contribute to answering the research questions. Whenever possible and when necessary, in order to provide the best illustration to clarify aspects of credit, the analysis attempts to provide results in terms of both sector and size representations. Survey data is examined through the SPSS system on descriptive analysis for cross-tabulations and frequencies. Graphics are used to represent clustered

information. In the case of answers related to open questions, magnitude coding is applied.

This section aims to expose the analytical results of data represented by the research survey on SMEs' perceptions and opinions.

Different elements of lending are examined under different perspectives. An aspect to draw on is that the results of themes are analysed through cross-tabulation, frequencies or using a cluster method to account for both sector and size factors. The choice of analytical method is made according to the elements being examined and the importance that these assume in relation to the topic to inductively uncover occurrences. In the first instance, participants were asked to indicate the kind of finance on which they relied. They were also asked to indicate the types of activities to which finance is allocated, including both 'working capital' and 'long-term investment and development'. To complete the cycle of the issue of general access to credit, the enquiry was directed towards understanding whether access to credit represented a problem.

Participants were asked whether they relied on loan-type credit and to indicate whether they found bank loans relevant to their activities. In relation to these two latter aspects on loan-type credit, participants were later asked to indicate the types of information required by banks for loan applications. In this respect, they were asked to express their opinions of selected responses, indicating whether data was requested on an 'often', 'sometime' or 'never' basis. A 'do not know' option was also available but not considered for analytical purposes. On loan-type applications, a question probed whether firms found banks rigorous in terms of information. In the case of a positive response, participants were required to indicate the type of information to which rigour was applied. To best analyse responses on types of financing, these are classified according to three different characteristics to include business generated or personal capital, loan-type and other bank credit sources and other financing resources.

Questions related to the number of banks with which SMEs have a relationship follow. SMEs are also asked to provide an opinion on their relationship. Participants are questioned, based on their perceptions and experiences, to provide an indication of the measure for different proposed aspects associated

with a relationship banking type methodology to lending and whether the latter might be considered beneficial to SMEs' access to credit.

The survey also asked about knowledge of European Union promotion of the application for credit type loans.

### 4.2.1 Access to credit

The questions which this subsection attempts to answer are as follow:

***Q1: What is the type of finance on which SMEs depends?***

***Q2: What are the types of activities for which finance is assigned?***

***Q3: Does access to credit represent a problem?***

***Q4: Is loan-type credit relevant?***

***Q5: Do SMEs rely on bank loans and through which type institutions?***

In terms of personal capital and business generated finance, the manufacturing sector is the most representative for all firm sizes. Equity finance is also highly represented by the wholesale and retail trade and by 'other' types of sectors. Personal capital indicates a high percentage of responses for the construction industry from medium-sized firms. Self-generated reserves are highly employed in the transport, storage and communication segments, particularly by medium-sized firms. Table 11 best exemplifies the described trends.

**Table 11: Respondents' classification of business generated and personal capital: percentage value by sector and size**

| Sector | Firm Size – what size of firm are you? | | |
|---|---|---|---|
| | Micro | Small | Medium |
| **Equity (% Terms)** | | | |
| 1 Manufacturing | **47.1** | **55.6** | **80.0** |
| 2 Agriculture/Farming | 5.9 | **11.1** | |
| 3 Distribution Services | 5.9 | | |
| 4 Design/Research | 5.9 | | |
| 10Transport/Storage/Communication | 5.9 | | |
| 11 Wholesale/Retail Trade | **11.8** | **11.1** | **20.0** |
| 12 Other | **17.6** | **22.2** | |
| | | | Continue on next page |
| 1 Manufacturing | **40.0** | **42.9** | **75.0** |
| 2 Agriculture/Farming | 5.7 | 7.1 | |
| 3 Distribution Services | 2.9 | | |
| 5 Construction | | 7.1 | **12.5** |
| 6 Health/Social Work | 2.9 | | |
| 7 Hotels/Restaurants/Leisure | 2.9 | | |
| 8 Mining/Metals/Mineral | 2.9 | 7.1 | |
| **Self-generated from Reserves (% Terms)** | | | |
| 1 Manufacturing | **45.5** | **50.0** | **57.1** |
| 2 Agriculture/Farming | 4.5 | | |
| 3 Distribution Services | 4.5 | | |
| 4 Design/Research | 4.5 | | |
| 5 Construction | 4.5 | | |
| 8 Mining/Metals/Mineral | 4.5 | | |
| 10Transport/Storage/Communication | | **8.3** | **42.9** |

Moving on to the enquiry on loan types and other types of bank credit, the manufacturing sector is still the most representative for all firm sizes and types of credit. Manufacturing is followed by construction, the wholesale and retail trade and the transport, storage and communication sectors. Manufacturing, transport, storage and communication activities employ all types of credit quite evenly in both the small and medium segments. However, in the case of both construction and wholesale and retail trade, trends differ by business size and type of credit sought. Construction operates mainly through overdraft facilities in the medium segment and credit cards in both the medium and small segments. The wholesale and retail trades' main sources of financing are loans over €25,000, microfinance and overdraft facilities. However, in this latter sector, distribution is uneven between business sizes. Table 12 provides a clear illustration of finance credit types' distribution by sector and business size.

**Table 12: Respondents' classification of loan type and other bank credits: percentage values by sector and size**

| Sector | Firm Size – what size of firm are you? | | |
|---|---|---|---|
| | Micro | Small | Medium |
| **Bank Loans > € 25,000 (% Terms)** | | | |
| 1 Manufacturing | **45.2** | **40.0** | **55.6** |
| 2 Agriculture/Farming | 6.5 | 5.0 | |
| 3 Distribution Services | 3.2 | 5.0 | |
| 5 Construction | | 5.0 | **11.1** |
| 6 Health/Social Work | 3.2 | | |
| 8 Mining/Metals/Mineral | 3.2 | | |
| 10 Transport/Storage/Communication | | **15.0** | **22.2** |
| 11 Wholesale/Retail Trade | **19.4** | **30.0** | **11.1** |
| 12 Other | **19.4** | | |
| **Microfinance < € 25,000 (% Terms)** | | | |
| 1 Manufacturing | **41.7** | **33.3** | **50.0** |
| 3 Distribution Services | 8.3 | | |
| 8 Mining/Metals/Mineral | 8.3 | | |
| 10 Transport/Storage/Communication | | **66.7** | **50.0** |
| 11 Wholesale/Retail Trade | **25.0** | | |
| 12 Other | **16.7** | | |
| **Overdraft (% Terms)** | | | |
| 1 Manufacturing | **41.7** | **38.5** | **60.0** |
| 2 Agriculture/Farming | 8.3 | | |
| 3 Distribution Services | 4.2 | | |
| 4 Design/Research | 4.2 | | |
| 5 Construction | | | **20.0** |
| 6 Health/Social Work | 4.2 | | |
| 8 Mining/Metals/Mineral | 4.2 | | |
| 10 Transport/Storage/Communication | | **15.4** | **20.0** |
| 11 Wholesale/Retail Trade | **16.7** | **38.5** | |
| 12 Other | **16.7** | 7.7 | |
| **Credit Cards (% Terms)** | | | |
| 1 Manufacturing | 50.0 | **33.3** | **50.0** |
| 3 Distribution Services | 10.0 | | |
| 5 Construction | | **16.7** | **25.0** |
| 8 Mining/Metals/Mineral | 10.0 | | |
| 10Transport/Storage/Communication | | **33.3** | **25.0** |
| 11 Wholesale/Retail Trade | 10.0 | | |
| 12 Other | **20.0** | **16.7** | |

Frequency distribution on 'valid responses' to account for business generated or personal capital, loan types and other bank credit sources and other financing resources provides a clear indication of general trends. SMEs tend to rely mainly on business and personal capital and bank loans and overdrafts. This is in line with the analysis provided on the type of financing resource distribution, on the basis of size and sector elements. In frequency terms, other financing resources

are mostly represented by leasing, commercial credits, advances by customers, asset-based lending and invoice discounting. Table 13 exemplifies this.

**Table 13: Responses based on frequency distribution for business and personal capital, loan type and other bank credits and other types of financing**

| Type of Finance | Frequency Distribution (% Terms) |
|---|---|
| **Business Generated or Personal Capital (% Terms)** | |
| **1** Self-generated from reserves | **45.7** |
| **2** Equity | **34.8** |
| **3** Own capital | **63.0** |
| **Loan Type and Other Credits (% Terms)** | |
| **1** Bank loans > €25,000 | **65.2** |
| **2** Microfinance < €25,000 | 19.6 |
| **3** Overdraft | **46.7** |
| **4** Credit cards | 22.8 |
| **Other Financing Resources (% Terms)** | |
| **1** Leasing | **45.7** |
| **2** Factoring (credit transfer) | 20.7 |
| **3** Commercial credits | **39.1** |
| **4** Advances from customers | **34.8** |
| **5** Subsidised credits (from government funds or from European Union funds) | 25.0<br>**33.7** |
| **6** Asset-based lending (based on real guarantees) | **45.7**<br>27.2 |
| **7** Invoice discounting | |
| **8** Advance payments | |

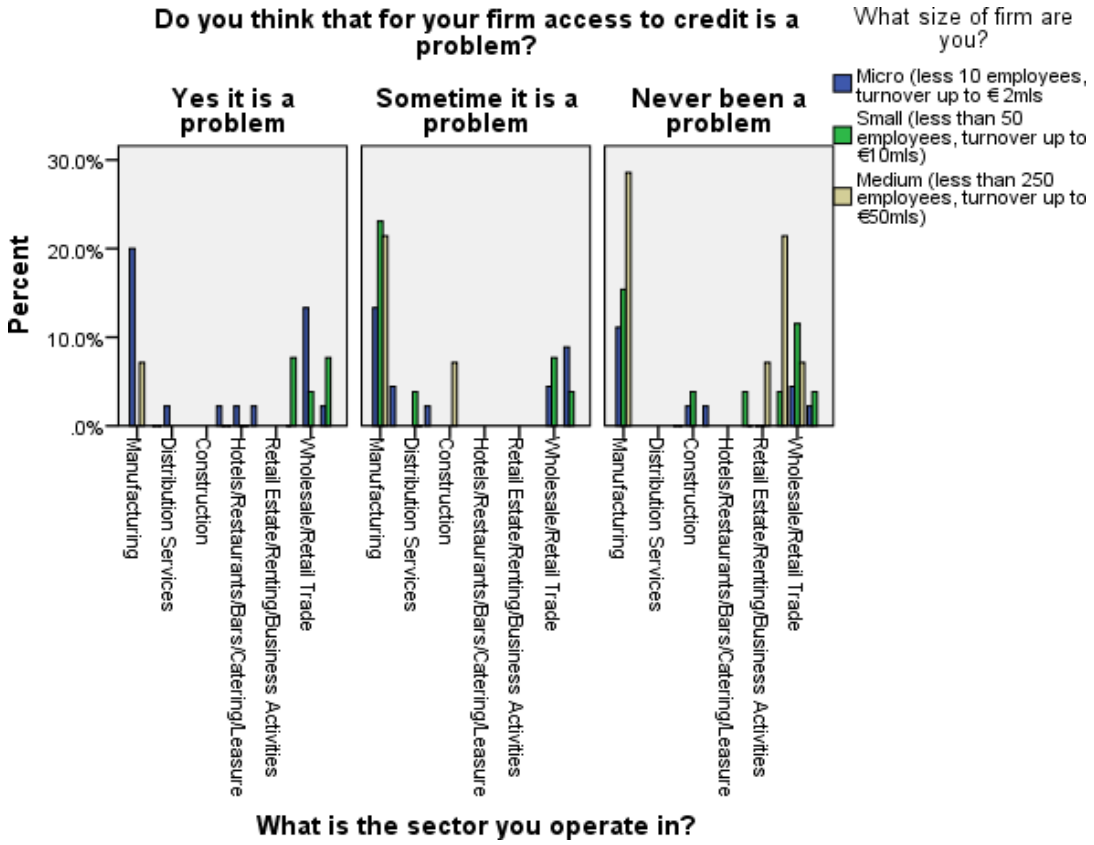
In terms of finance applications as working capital or long-term investment, participants were invited to respond to both options according to their preferences. Financing for working capital is mostly applied by the manufacturing sector to all sizes of business. Transport, storage and communication sectors use financing resources for working capital both in the case of small and medium-sized businesses. Micro and small firms within the wholesale and retail trade and other types of sectors apply different types of financing from working capital business activities. The above-described trends also apply to long-term investment-type activities. These results are consistent with the results on financing-type resources, where these sectors rely on multiple types of sources of finance. Furthermore, the results indicate that these sectors apply different types of financing to long-term investment activities and working capital. Table 14 provides a synopsis of the application of financing resources for SMEs according to sector classification.

**Table 14: Responses based on frequency distribution and cross-tabulation results for application for financing**

| Application for Financial Resources (% Trends) | | | |
|---|---|---|---|
| **Sector** | **Firm Size – what size of firm are you?** | | |
| | Micro | Small | Medium |
| **Working capital (Valid Frequency 84.8 % – Value 78)** | | | |
| **1** Manufacturing | **42.5** | **32.0** | **50.0** |
| **2** Agriculture/Farming | 5.0 | 4.0 | |
| **3** Distribution Services | 2.5 | 4.0 | |
| **4** Design/Research | 2.5 | | |
| **5** Construction | 2.5 | 8.0 | 8.3 |
| **6** Health/Social Work | 5.0 | | |
| **7** Hotels/Restaurants/Bars/Catering/Leisure | 2.5 | | |
| **8** Mining/Metals/Mineral | 2.5 | 4.0 | |
| **9** Retail Estate/Renting/Business Activities | | | 8.3 |
| **10** Transport/Storage/Communication | | **12.0** | **25.0** |
| **11** Wholesale/Retail Trade | **20.0** | **20.0** | |
| **12** Other | **15.0** | **16.0** | |
| **Long-term investment to innovate & grow (Valid Frequency 52.2% – Value 48)** | | | |
| **1** Manufacturing | **36.8** | **36.8** | **77.8** |
| **2** Agriculture/Farming | 10.5 | 5.3 | |
| **3** Distribution Services | | 5.3 | |
| **4** Design/Research | 10.5 | | |
| **5** Construction | | | |
| **6** Health/Social Work | 5.3 | 5.3 | |
| **7** Hotels/Restaurants/Bars/Catering/Leisure | | | |
| **8** Mining/Metals/Mineral | | 5.3 | |
| **9** Retail Estate/Renting/Business Activities | | | |
| **10** Transport/Storage/Communication | | **10.5** | **22.2** |
| **11** Wholesale/Retail Trade | **5.3** | **21.1** | |
| **12** Other | **31.6** | **10.5** | |

On the questions about whether access to credit represented a problem, respondents from the manufacturing sector and the micro segment underlined a negative trend, whilst medium firms swung between the 'sometimes it is a problem' and 'never been a problem' options. Figure 42 clearly indicates this trend. Construction, in the medium-sized segment, regards access to credit as sometimes being a problem. The wholesale and retail trade sectors are both representative of all options; however, micro and small-sized businesses opt more towards negative responses. Results are consistent with the answers about financing sources and their application and provide reliability and validity across responses.

**Figure 42: Responses to access to credit application**




To the question on the application of loan-type credit and its relevance to business activities, responses are again consistent, highlighting both manufacturing and the wholesale and retail trade as currently drawing upon this type of resource to finance business activities. Answers are representative of all segments. Figures 43 and 44 highlight the trends.

**Figure 43: Responses to reliance on bank loans**

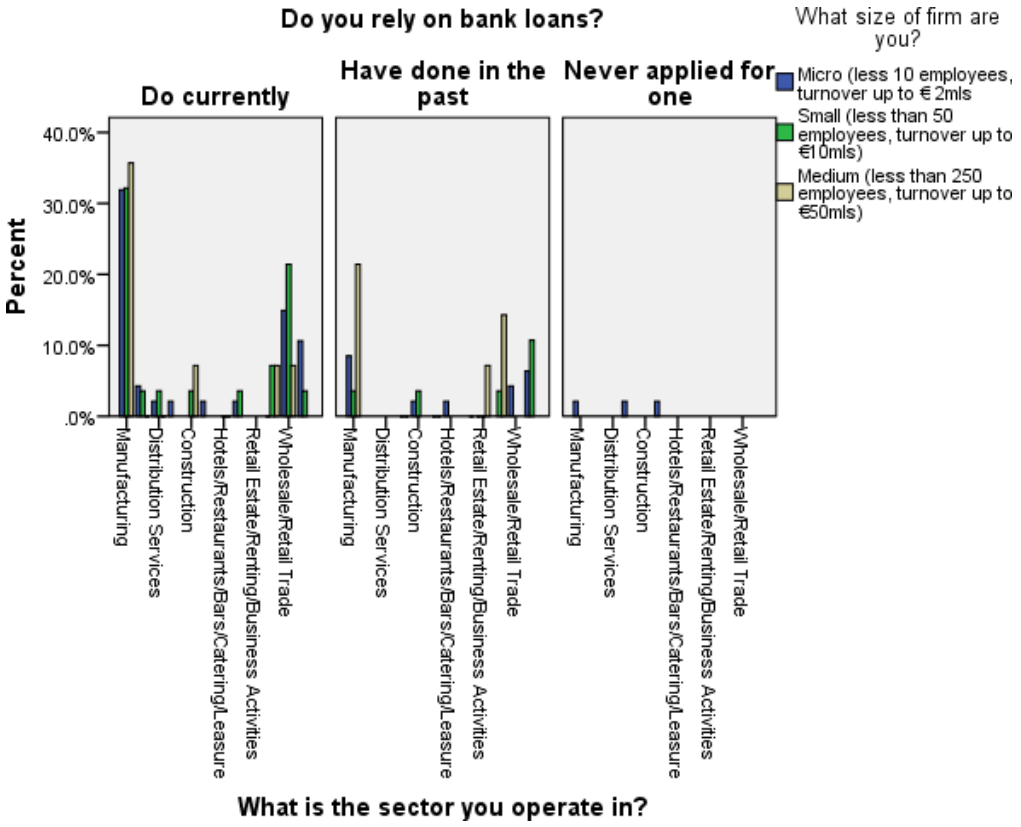
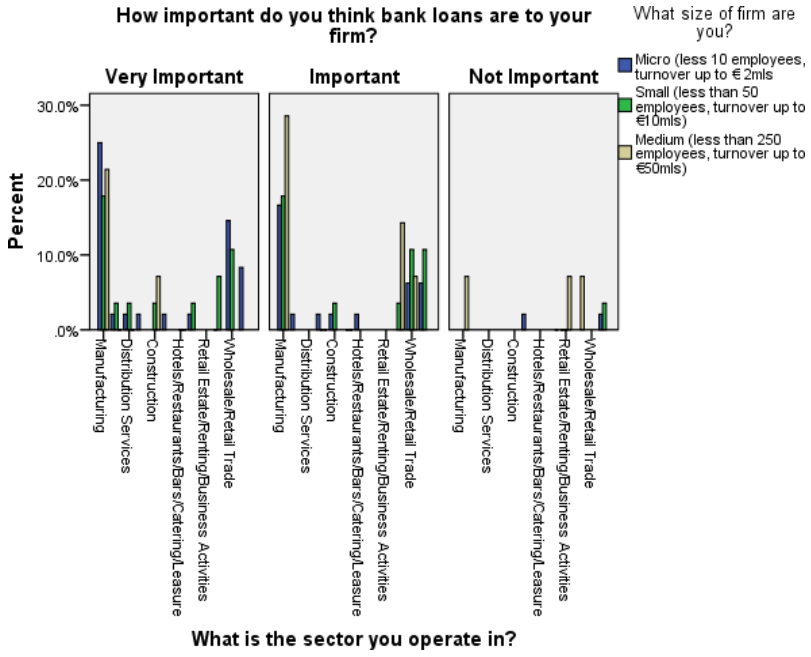



**Figure 44: Responses on perspectives about bank loan relevance**



### 4.2.2 Information requested

The section provides responses to two questions.

***Q6: What type of information is required to access credit?***

**Q7:** ***How rigorous are banks on information required?***

The information requested by banks for loan applications is often directed towards four core aspects. These are represented by past and current financial records. Guarantees of the provision of collaterals and business creditworthiness also assume relevance in application processes. In some instances, SMEs report banks requiring capital equal to or above the level of credit being requested or agreed. Past creditworthiness is the fourth aspect in percentage terms which is often reported as being required by banks for loan applications. Business plans and specifics and descriptive explanations on the reasons behind a loan request are also relevant although less applicable. Table 15 presents a synopsis in terms of frequency distribution in percentage terms, as provided by the SPSS analysis.

**Table 15: Responses based on frequency distribution over type of information and loan application requirements**

| Type of documentation requested by bank for loan application | Frequency distribution (% Terms) Based on valid responses | | |
|---|---|---|---|
| | Often | Sometimes | Never |
| **1** Past financial records | **54.3** | 13.0 | 8.7 |
| **2** Current financial records | **79.3** | 7.6 | 2.2 |
| **3** Guarantees (including provision of collateral for loans) | **60.9** | 20.7 | 7.6 |
| **4** Past creditworthiness evidence | **44.6** | 16.3 | 9.8 |
| **5** Business plan | **29.3** | **27.2** | 18.5 |
| **6** Specifics and descriptive plans/explanations for requiring a loan | **29.3** | **31.5** | 13.0 |

SMEs find, in most cases, that banks are rigorous in the assessment process for a loan application. This characterises all segments but particularly manufacturing, wholesale and retail trade sectors.

Respondents were required to provide answers using multiple choice options on the rigour applied by banks for the provision of loan-type financing. The questions on rigour related to five points. These were 'past financial records', 'detailed current financial records', 'future financial planning', 'information on the strategy for the business' and 'past creditworthiness evidence'. A participant response rate average of 41.5 percentage indicated that banks were rigorous in all of the above specified factors, with particular emphasis on 'requirements for current financial records'. Table 16 indicates the frequency distribution for bank rigour regarding information requirements. Results tend to indicate that banks have a tendency to apply quantitative-type information for the assessment process for lending. Detailed current and past financial records represent the main source of information, followed by past creditworthiness, future financial planning and information on the strategy of the business.

**Table 16: Responses based on frequency distribution for type information for loan application requirements**

| **SMEs' Opinions of Bank Rigour for Loan Applications** | | |
|---|---|---|
| **Opinions** | **Value Response Rate** | |
| **1** They are rigorous<br>**2** Sometime they are rigorous<br>**3** They are not rigorous | **63**<br>**20**<br>7 | Average 41.5 |
| **Bank Rigour for Information** | | |
| **Type of documentation requested by bank for loan application** | **Frequency Distribution (% Terms)**<br>Based on 40 average valid response rates for SMEs' opinions on rigour in loan applications | |
| **1** Detailed past financial records | **45.7** | |
| **2** Detailed current financial records | **70.7** | |
| **3** Future financial planning | 33.7 | |
| **4** Information on the strategy for the business | 31.5 | |
| **5** Past creditworthiness evidence | 37.0 | |

### 4.2.3 Relationship lending

This section provides answers to the following questions:

***Q8: Do SMEs have a bank relationship?***

***Q9: What is the opinion on the relationship?***

***Q10: What type of relationship do SME favour (multi-banking or relationship building)?***

***Q11: What is the perception about the effects of a relationship lending application on loan costs and terms?***

In most cases, SMEs indicated that they have a bank relationship. In particular, the responses indicate that the manufacturing, wholesale and retail trade and transport, storage and communication sectors do have a relationship with banks. This applied to all business sizes, as illustrated in Figures 45 and 46. SMEs tend to be either satisfied or unsatisfied by the relationship. Very few are very satisfied by their relationship with banks. In this case, the majority is represented by medium-sized businesses. Where businesses have no relationship with banks, their opinion is positive about the benefits offered by such a collaboration. Positive responses to the benefits offered by a relationship are offered by the manufacturing, construction, health and social work, hotels, restaurants, bars, catering and leisure and the wholesale and retail trade sectors, specifically the micro and small segments.

**Figure 45: Responses based on cluster elements for relationship lending – sector vs. size**

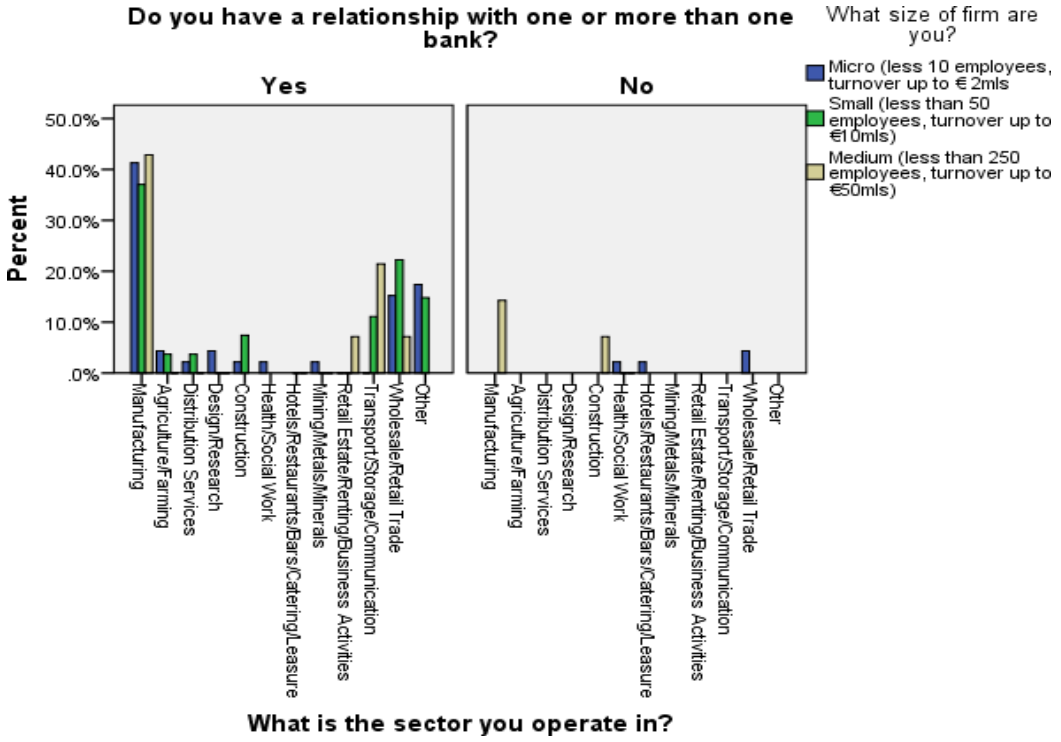
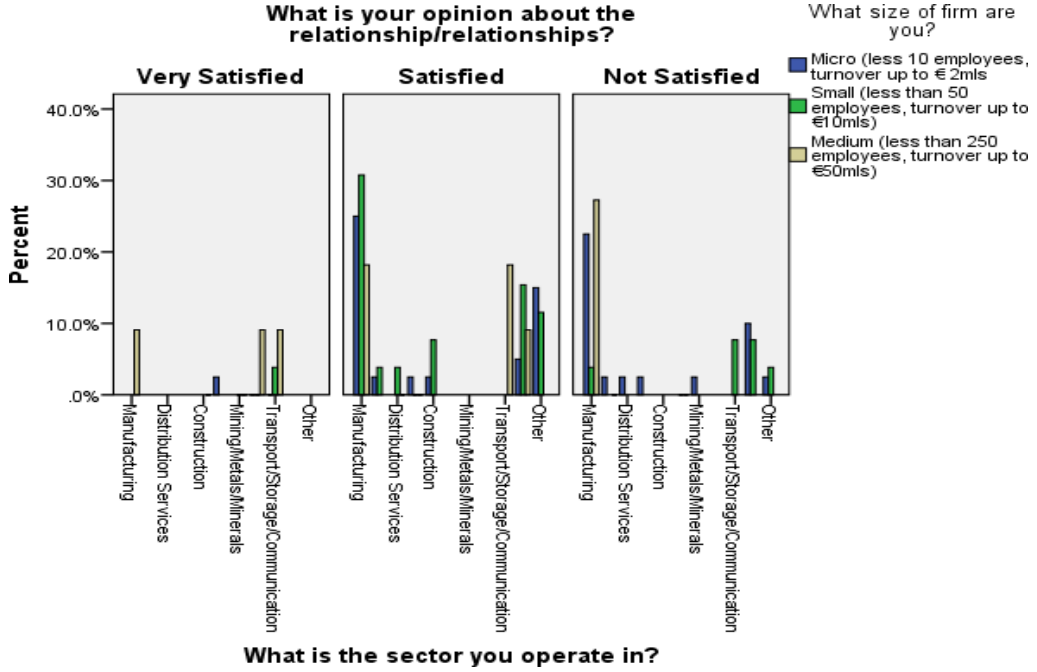



**Figure 46: Responses based on cluster elements for relationship lending satisfaction – sector vs. size**




A correlation between positive responses about SMEs' relationship lending and number of relationships is found to be essential in portraying a picture of the perceptions of aspects that might be influenced by relationship banking. Trends

indicated in Table 17 highlight that most SMEs have a relationship lending-type activity with banks. However, SMEs tend to have more than one relationship, varying from two to ten. In most cases, the number of relationships fluctuates from one to four. Of 81 respondents having a relationship, an average of 62 participants, specify a preference of this type of collaboration as they perceive an improvement towards lending activities and possible related benefits. The majority of respondents in percentage terms indicated that cost of credit, terms and conditions, success in both loan and other types of credit applications and interest rates applied to credit may improve if a 'consolidated' relationship was established.

**Table 17: Responses based on frequency distribution over relationship lending**

| **Do you have a relationship?** | **Value Response Rate** | | |
|---|---|---|---|
| **1** Yes<br>**2** No | **81**<br>7 | | |
| **Number of Relationships** | **Frequency Distribution**<br>(% Terms) 78 responses out of 81 | | |
| • One<br>• Two<br>• Three<br>• Four<br>• Five<br>• Six<br>• Seven<br>• Ten | **12.0**<br>**19.6**<br>**18.5**<br>**13.0**<br>7.6<br>**8.7**<br>2.2<br>3.3 | | |
| **Relationship lending (banking) affecting the following aspects** | **Frequency Distribution (% Terms)**<br>Based on 62 average – valid responses | | |
| | Improve | Same | Deteriorate |
| **1** Cost of credit for loans (excluding interest rates) | **52.2** | 14.1 | 7.6 |
| **2** Cost of credit for other types of credit (not loans, excluding interest rates) | **41.3** | 21.7 | 4.3 |
| **3** Choice of services provided | **39.1** | 25.0 | 4.3 |
| **4** Degree of success in loan application | **45.7** | 20.7 | 3.3 |
| **5** Degree of success on other type of credit applications (not loans) | **33.7** | 26.1 | 5.4 |
| **6** Terms and conditions of loans | **46.7** | 20.7 | 1.1 |
| **7** Terms and conditions of other credit (not loans) | **31.5** | 28.3 | 2.2 |
| **8** Interest rates applied to loans | **41.3** | 23.9 | 2.2 |
| **9** Interest rates applied to other types of credit (not loans) | **35.9** | 23.9 | 3.3 |

### 4.2.4 European Commission promotion of lending activities and other aspects of lending

There is an attempt to uncover whether SMEs are aware and informed of European Union promotion of credit-type loans. The question which the research attempts to answer is therefore:

***Q12: Are SMEs aware of European Union promotion of applications for credit-type loans?***

An interesting aspect was that, in most cases, SMEs were not aware or informed of the European Union's promotion of applications for credit-type loans. In fact, out of 87 responses, 52 were not aware of this element. Of a total of 35 respondents, 30 found that information was not accessible or they did not know how to access it.

### 4.2.5 Responses to open questions

Two open questions were asked of participants. In the case of a positive response to whether access to credit represented a problem, the question was 'In what way does access to credit represent a problem?'. At the end of the survey a general question was asked of participants to enquire into their opinions on problems with SMEs' access to credit.

The answer which the research attempts to answer is linked to identified obstacles that may affect SMEs' access to credit, as follows:

***Q13: What are the main recognised problems linked to access to credit?***

Answers are provided by a variety of sectors and sizes and the results are presented in Figure 47. SMEs acknowledge a difficulty in accessing credit mainly due to the credit crunch and the consequential liquidity constraint which this has created. However, they underline the lack of trust banks show towards SMEs, especially towards innovative start-ups and micro-firms. Lack of trust is, however, a sentiment that SMEs also demonstrate towards banks. Firms tend to view banks

as being untrustworthy, having a poor awareness of the local economic and business status, applying high costs, collateral and guarantees and having a scarce interest to SMEs' ability to invest and grow. Collaterals, in the form of assets, requirements for credit allocation are considered disproportional. At the same time, guarantees in the form of liquidity investments or fixed deposits, are regarded as excessive. SMEs also recognise that banks lack competence in loan evaluation and express a negative opinion about the application of objective processes. They also indicate that banks are hardly near to firms although they highlight that local banks are more present. They, therefore, consider distance and correlation between firms and institutions to be a relevant element but they perceive this to be of less value to banks. They specify that there is a 'lack of competent representatives' within the institutions. Indeed, they highlight that banks' representatives demonstrate a poor ability to 'interpret the real economic business position/status' and have poor knowledge of the productive fabric and local environment. Lack of flexibility in the loan assessment process is considered a negative aspect. The limits which may pose a problem in loan requests and distribution are the fear of denial, a business's ratings, loan restrictions posed by the boundaries over credit allocation brought by a lack of liquidity availability and a willingness to lend arising from the credit crunch. Businesses indicate that micro-firms, innovative and start-up firms are generally most affected by credit distribution turmoil. SMEs indicate that banks apply high interest rates to credit. Cost of credit is also a problem as it impacts considerably on financial records. Responses related to the above, including opinions on collateral, interest rates, cost and trust are hereafter displayed. Magnitude coding is applied to the analysis to provide results.

**Figure 47: SMEs' recognised problems**

| **Responses** | **Magnitude Coding (based on frequency – Saldana, 2013)** |
|---|---|
| **<u>Collateral – guarantees – interest rates:</u>**<br><br>'*In the last years,* ***banks are not willing to lend*** *unless* ***real warranties (collateral)*** *are provided'* | ***Often***<br><br>Continue on next page |

| | |
|---|---|
| '*I could not access subsidised loans as to access credit I had to **provide an equivalent amount in monetary terms**… therefore credit is provided if you have liquidity availability.'*<br><br>'*Banks against a loan of 1.00 request a **guarantee** of 2.00/3.00. This is for every business partner. Therefore, the guarantee to be provided is enormous.'*<br><br>'*It is necessary to provide a **lot of guarantees** also personal ones.'*<br><br>*'"The **guarantees** requested by bank institutions are absurd and unacceptable. Whomever owns the prerequisites that banks pose on firms has no need of applying for credit.'*<br><br>'***Guarantees** requested are either equal or over the required credit.'*<br><br>'*To access subsidised credit (low interest rates) the bank requires one to **invest an equivalent amount in monetary terms** at the same institution.'*<br><br>'*The **guarantees** required for credit are based on net sales. During economic crisis periods, this requirement **is a problem** for suffering firms (although with positive bank balances).'*<br><br>'*Banks require **too many guarantees.'***<br><br>'*They require **security deposit** to cover credit amount.'*<br><br>'*Many bureaucratic difficulties **and excessive guarantees**.'*<br><br>'***Lack of capitals**.'*<br><br>'***Guarantees** and the spread.'*<br><br>'*Banks should seriously value SMEs for their products and not only for their **guarantees**.'*<br><br>'*….the **value of lands, which could be used as collateral or guarantee, are difficult to estimate.'***<br><br>'***Credit for SMEs has become prohibitive**. Banks want **too many guarantees** and **apply too high interest rates.'***<br><br>'*According to my opinion, some **bank institutions apply too high interest rates**. This is a speculation on small businesses. Banks are facing difficulties due to past financial erroneous choices and now this is reflecting on the real economy.'*<br><br>'*We operate on the basis of advanced invoices. Sales derive mainly from the public administrations and settlements are* | Continue on next page |

| | |
|---|---|
| *lengthy. Institutions pay in advance up to Euro 100.000 up front to an amount of Euro 300.000; this is equal to 30% of the total. This situation* ***and banks' costs and charges impact considerably on our balance sheet.'***<br><br>'*Local banks are a bit more near to firms but* ***interests are too high and the guarantees*** *provided by the firm are not satisfactory to the institutions.'*<br><br>'***Interest rates*** *are too high.'* | |
| **Trust:**<br><br>'***In spite of capitals*** *(assets), banks are reluctant to finance SMEs due to a* ***lack of trust****. This happens even if a firm has always fulfilled its obligations.'*<br><br>'*Too much* ***distrust*** *by banks instead of looking at track-records.'*<br><br>''*The* ***actual market conditions*** *see banks not very interested on loan* ***risk*** *preferring to monetise on other types investments.'*<br><br>'*Banks have had, in the past few years,* ***too many unrepaid loans*** *and this has influenced access to credit. The crunch has negatively affected also past solvent business.'*<br><br>'*Large banking institutions do* ***not inform clients of the microcredit opportunity.*** *Their main interest is to apply* ***high interest rates****.'*<br><br>'*Many organisations and charities will never be able to access credit, to be honest* ***really reluctant to put money in bankers' pocket****, regardless of interest rates.'*<br><br>'*The banking system should be modified by introducing* ***ethical criteria*** *that can positively affect the economy.'* | ***Somewhat*** |
| **Banks' flexibility over lending:**<br><br>'***More flexibility'***<br><br>'*Too much bureaucracy and* ***little flexibility'***<br><br>'*Banks do* ***not allow for a minimum flexibility*** *and they prolong the allocation length of the assigned credit.'* | ***Somewhat*** |
| **Banks' competence in evaluation:**<br><br>'***Lack of competent representatives****.'*<br><br>'*Bank official* ***lack of expertise*** *over credit assessment.'*<br><br>'*The agricultural sector is to be viewed differently from other sectors. In Italy there is no obligation to prepare financial* | ***Somewhat***<br><br>Continue on next page |

| | |
|---|---|
| *statements. For this reason,* ***banks extrapolate the necessary data on the basis of economic activities applying different systems which are scarcely accurate****.'*<br><br>'***Banks consider the parameters*** *and not people.'*<br><br>'*At times is dependent on bank's operator/representative and on his/her* ***ability to interpret the real economic business position/status.'***<br><br>'*Bank officers have* ***no knowledge of the productive fabric****. The only* ***criterion is dictated by the institution head office*** *which excludes any evaluation based on circumstances, on the environment and on a subjective basis. An* ***objective evaluation is inadequate*** *as it is not sufficient to provide the requested documentation. In fact, there is a need to explain the meaning of every balance sheet item. These* ***explanations are not understood by the institution*** *officer* ***and are not loaded in the information systems which gather data****. …There is a* ***need for specifics rules to define costs applications to credit and general rules which should be few and clear****.'*<br><br>'***The relationship with banks is difficult*** *due to the Italian slow pace of justice which impairs businesses from debt collection. Furthermore, banks tend to safeguard themselves by the* ***application of very restrictive and automatic rules.*** *The* ***direct correlation between the firm and the officer is of less value and importance****.'*<br><br>'***Banks are not any longer near to firms.'***<br><br>'***Local banks are a bit more near to firms.'*** | |
| **<u>Limits posed on loan requests and distribution:</u>**<br><br>'*The* ***fear of a denial*** *of the credit application.'*<br><br>'***Difficulty*** *to access credit.'*<br><br>'*Banks apply increasing* ***restrictions****. A bank refuses a congruous repayment plan and a warning to the Bank of Italy central* ***risk*** *office impedes other willing institutions from granting a loan.'*<br><br>'*Lately banks apply* ***limits on credit*** *in terms of the dispensed sum and on the loan duration.'*<br><br>'***Limit*** *of dispensable credit.'*<br><br>'***Difficulties to obtain credit*** *even with fixed assed (real estates) as guarantees.'*<br><br>'*The* ***rating*** *has* ***worsened*** *due to the crisis.'* | ***Somewhat***<br><br>Continue on next page |

| | |
|---|---|
| ‘*At present the **rating is low.’***<br><br>‘*In the last few years, with the economic crisis, it is **more difficult to access credit.’***<br><br>‘*Because there is **less liquidity around** and banks are more reluctant to grant credit.’*<br><br>‘*If this **credit crunch** will continue, businesses will suffer and close. The **liquidity problem** has been generated by the past credit system which now demands credit repayments.’*<br><br>‘*Low level invoicing, therefore, **banks are less willing** to dispense credit.’*<br><br>‘*In the present period there is awareness of having to actualise a **credit crunch** strategy as an end in itself. This is **heavily penalising innovative** investments and the **liquidity availability** destined for the firm working capital.’*<br><br>‘*Credit crunch.’* | |
| **<u>Sectors which most suffer from credit distribution:</u>**<br><br>‘*Because it is a **micro-firm**.’*<br><br>‘***Firm size**.’*<br><br>‘*Because we are **a start-up** and banks want a personal guarantee.’*<br><br>‘*Innovative’* | ***Moderately*** |

### 4.2.6 Summary of survey results

Figure 48 provides a synopsis of the main results. This is designed to indicate the main aspects and elements and actors' applications on the basis of descriptive coding (Saldana, 2013).

**Figure 48: Synopsis of main results**

| **Aspects/Elements** (based on predominant responses) Answers are provided by a variety of sectors and size | **Acted/applied from** | **Towards/from** |
|---|---|---|
| Most applied type of credit<br>- Loans over 25,000<br>- Own capital | | SME application<br>SME application |
| Credit towards<br>- Innovation<br>- Working capital | | SME strategy (credit request)<br>SME strategy (credit request) |
| Loan type credit recognised as relevant | | SMEs |
| Loan application a problem | | SME assessment |
| Rigours<br>- Detailed past financial records<br>- Detailed current financial records<br>- Future financial planning<br>- Information on the strategy for the business<br>- Past creditworthiness evidence | Banks (applies to all listed elements) | SME assessment (applies to all listed elements) |
| Information required:<br>- Past financial records<br>- Current financial records<br>- Guarantees (including | | SME application (applies to all listed elements)<br>Continue on next page |

| | | |
|---|---|---|
| provision of collateral for loans)<br>- Past creditworthiness<br>(evidence)<br>- Business plan<br>- Specifics and descriptive plans/explanations for requiring a loan | | |
| Relevance of relationship lending<br>- Cost of credit<br>- Terms and conditions<br>- Success of loan application<br>- Interest rate level<br>- Choice of services provided | | SME credit allocation (applies to all listed elements) |
| Number of relationships | | SMEs – prevalence of more than one / up to ten |
| Lack of trust | Banks and SMEs | Banks and SMEs |
| High collateral required (assets) | Banks | SMEs |
| High guarantees required (liquidity) | Banks | SMEs |
| High interest rates applied | Banks | SMEs |
| Less value allocated to the collaboration between banks and SMEs | Banks | SMEs |
| Lack of competent representative<br>- Knowledge of external environment<br>- Knowledge of business fabric<br>- Knowledge of business status<br>- Understanding explained business elements | Banks | SMEs |
| No value on SMEs' innovation and growth | Banks | SMEs |
| Limitations in credit distribution<br>- Crisis in terms of willingness and liquidity due to risk factor to recover credit<br>- Restrictions in credit allocation and assessment<br>- Restrictions in limits | Banks | SMEs<br>Continue on next page |

| | | |
|---|---|---|
| distribution<br>- Not transferring relevant business data (soft or hard information) on data systems<br>- Lack of expertise in credit assessment | | |
| Limitations to credit application<br>- Ratings<br>- Fear of denial<br>- Difficulties in the application to credit | SMEs | Banks |
| Credit crunch – access to credit a problem<br>Mainly applied to:<br>- Micro-credit firms<br>- Innovative sector<br>- Start-up firms | Banks | SMEs |
| Lack of information | Banks | SMEs |

## 4.3 SMEs' access to credit – elements of SME lending

This section responds to the posed question on liquidity availability and willingness to lend. It also attempts to address questions on elements of SMEs' access to credit. The posed questions are:

***Q14: What elements might hinder liquidity availability and willingness to lend to SMEs?***

***Q15: What are the characterising elements in SME lending?***

***Q16: What are the elements which might affect banks' distribution and SME lending?***

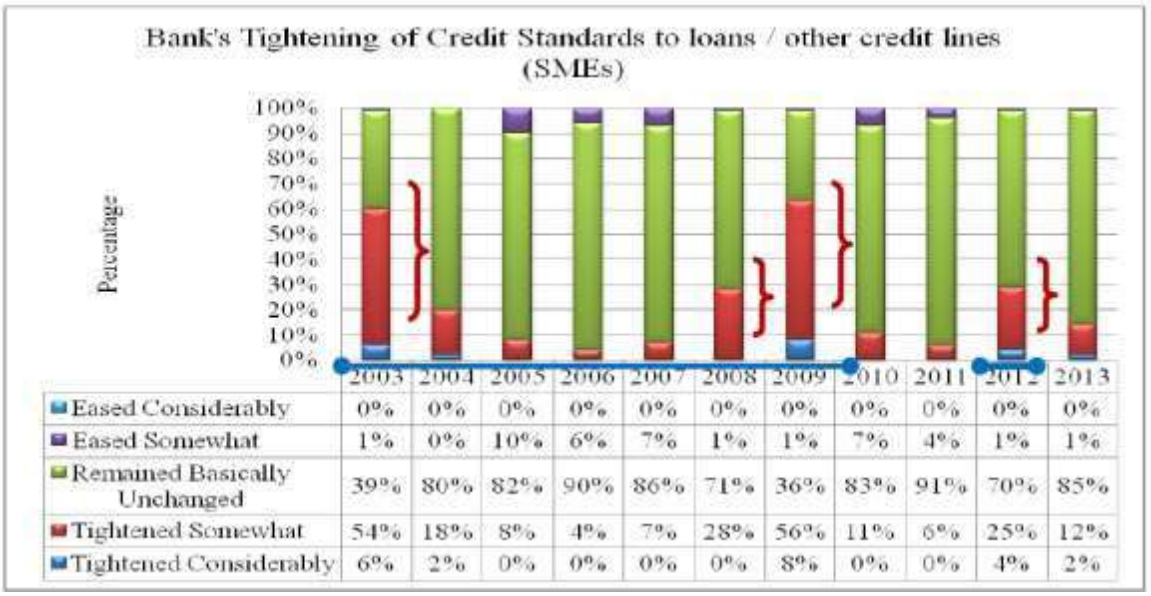
### 4.3.1 Liquidity availability and willingness to allow SMEs loans

To answer the posed question, an application of a qualitative technique based on multiple data to include surveys and documentary-type information is applied. For completeness, a brief exposition of the process followed is illustrated. In the first instance, SMEs' access to lending is analysed through existing surveys carried out by the European Central Bank. Where surveys are available, a comparison between lending pre- and post-financial crisis is outlined to understand whether important fluctuations have occurred. The review of the surveys' data is an attempt to analyse information through a different lens with the aim of better understanding the importance that SMEs place on lending and to unveil whether this segment does consider financial support an obstacle to growth. Furthermore, there is an attempt to illustrate the constraining elements that might hinder banks' availability and willingness to lend. Survey data analysis is to be linked to other types of secondary data from both 'documentary' and 'multiple-source' types of information (see Saunders et al., 2009, pp. 256-259).

A study conducted by Ruis et al. (2009) highlights that financial crises create swings that have a negative effect on lending. To consider this theory, an analysis drawn from European Central Bank surveys was proposed at European Union level on 'bank lending'. The analysis considers aspects during the period 2003 to 2009, to include two credit crisis periods, and the following years to understand trends.

The analysis shows that lending is indeed influenced by economic downturns due to credit crunch brought about by banks' tightening of credit standards for loans. The application of the same process, in the following period of 2011 to 2012, is hereby followed with the objective of ascertaining whether the only factors affecting loan distributions to SMEs are dependent on 'credit crunch' periods or whether other elements might contribute to hampering credit. Table 18 illustrates how banks' tightening on loans and other credit lines to SMEs have increased in the two recessive periods 2003 and 2008-2009, therefore suggesting that financial crisis downturns have a negative effect. However, tightening is also evidenced in 2012 when no financial crisis occurred.

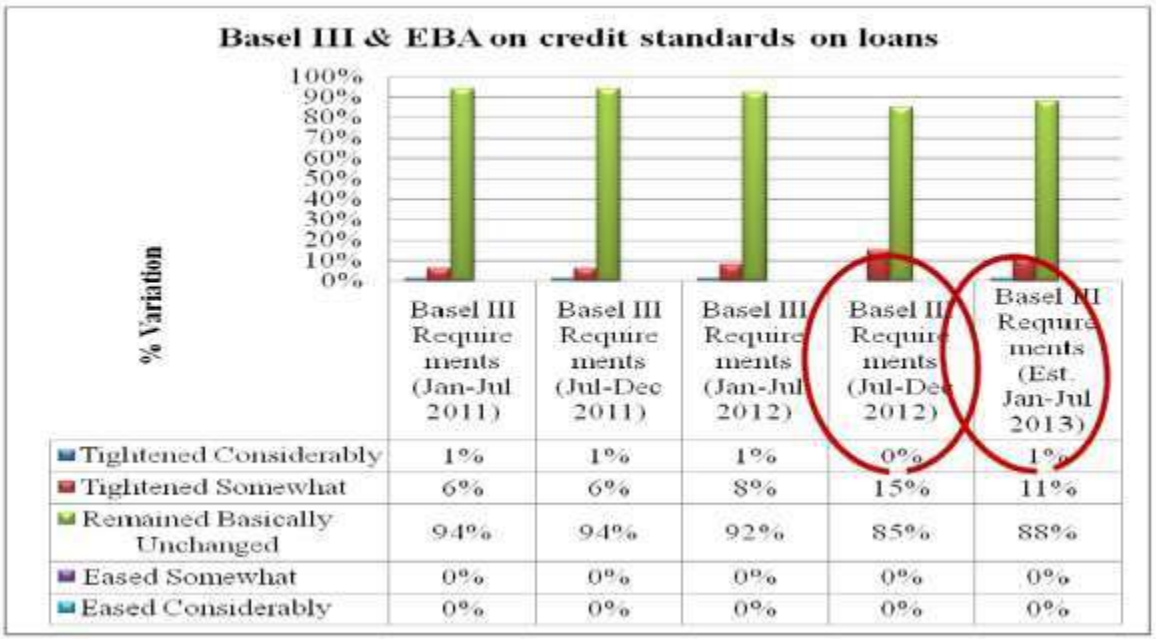
**Table 18: Banks' credit standard tightening for SMEs**




Source: European Central Bank, April 2009 – April 2013; January 2011 – April 2013; July 2011 – April 2013 and Ruis et al., 2009

On the basis of the European Central Bank survey, banks indicate that Basel III and EBA requirements towards capital and risk control have negatively affected credit standards for loans and other credit lines to SMEs. EBA and Basel III requirements are ascribable to terms and essential prerequisites that banks need to observe to ensure their ability to cover possible losses in view of lending and investment activities. Table 19 indicates that tightening increased during the period from July 2012 to July 2013, when additional provisions for capital and risk were to be implemented by institutions.

**Table 19: Effects of new regulations on credit standards for loans**




| | Basel III Requirements (Jan-Jul 2011) | Basel III Requirements (Jul-Dec 2011) | Basel III Requirements (Jan-Jul 2012) | Basel III Requirements (Jul-Dec 2012) | Basel III Requirements (Est. Jan-Jul 2013) |
|---|---|---|---|---|---|
| Tightened Considerably | 1% | 1% | 1% | 0% | 1% |
| Tightened Somewhat | 6% | 6% | 8% | 15% | 11% |
| Remained Basically Unchanged | 94% | 94% | 92% | 85% | 88% |
| Eased Somewhat | 0% | 0% | 0% | 0% | 0% |
| Eased Considerably | 0% | 0% | 0% | 0% | 0% |

Source: European Central Bank, April 2009 – April 2013; January 2011 – April 2013; July 2011 – April 2013

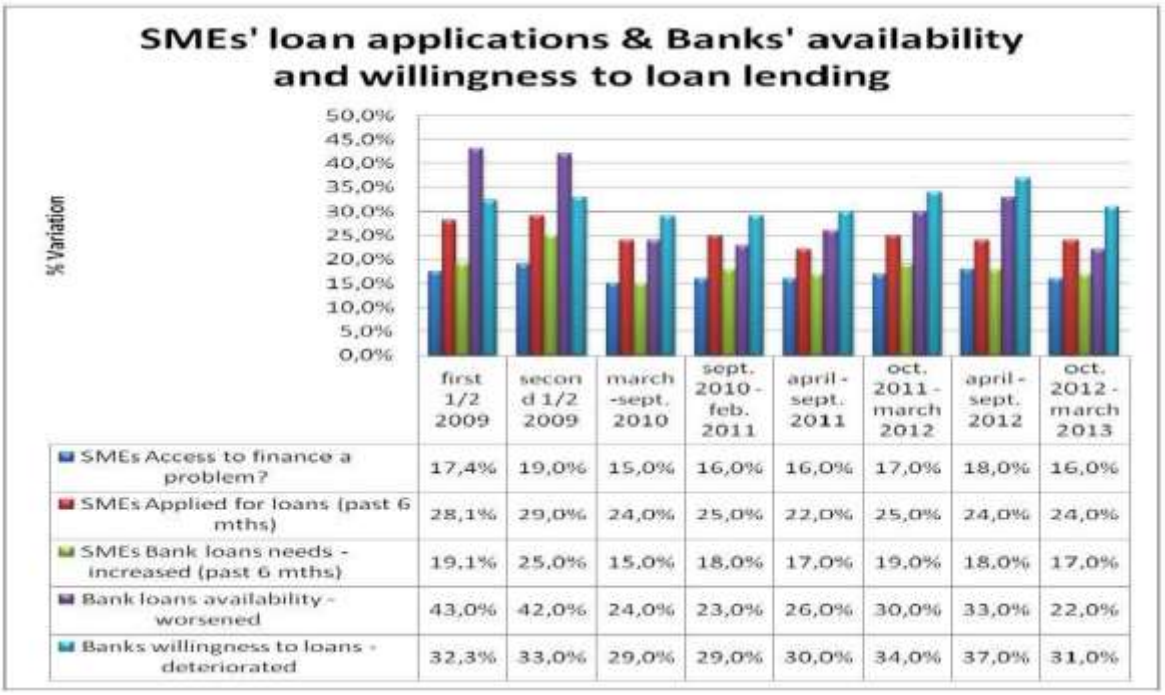
The analysis, as shown in Figure 49, indicates that 'capital position' and 'risk-weighted assets for riskier loans' and 'average loan' trends remained stable between July 2011 and January 2013. A rise was expected in July 2013 due to the full implementation of new regulations. At the same time, credit standards were predicted to tighten for the six months to July 2013.

**Figure 49: Effect of new regulations on risk and capital position**


Source: European Central Bank, April 2009 –- April 2013; January 2011 – April 2013; July 2011 – April 2013

Additional scrutiny evidences that SMEs' perceptions of the availability of bank loans and willingness to lend worsened in 2009 to correspond with the financial crisis period. This recurred in 2012 when banks, due to new regulations, tightened their credit standards for SME lending. Conversely, in those periods, SMEs' needs and applications for access to finance increased. Table 20 exemplifies this.

**Table 20: Loan availability and willingness vs. needs and application**




| | first 1/2 2009 | second 1/2 2009 | march -sept. 2010 | sept. 2010 - feb. 2011 | april - sept. 2011 | oct. 2011 - march 2012 | april - sept. 2012 | oct. 2012 - march 2013 |
|---|---|---|---|---|---|---|---|---|
| SMEs Access to finance a problem? | 17,4% | 19,0% | 15,0% | 16,0% | 16,0% | 17,0% | 18,0% | 16,0% |
| SMEs Applied for loans (past 6 mths) | 28,1% | 29,0% | 24,0% | 25,0% | 22,0% | 25,0% | 24,0% | 24,0% |
| SMEs Bank loans needs - increased (past 6 mths) | 19,1% | 25,0% | 15,0% | 18,0% | 17,0% | 19,0% | 18,0% | 17,0% |
| Bank loans availability - worsened | 43,0% | 42,0% | 24,0% | 23,0% | 26,0% | 30,0% | 33,0% | 22,0% |
| Banks willingness to loans - deteriorated | 32,3% | 33,0% | 29,0% | 29,0% | 30,0% | 34,0% | 37,0% | 31,0% |

Source: European Central Bank, January 2009 – March 2013

### 4.3.2 Characteristic elements of SME lending

In the context of this analytical review an explanation of the methodology to gather data and to provide empirical results is hereafter briefly illustrated. This study, through a magnitude coding evaluating methodology, additionally proposes to explore different types of data. Italy and the United Kingdom represent the basis of the research survey; therefore, data analysis for those two countries appears pertinent for completeness and validity purposes. For consistency purposes, data between the years 2010 and 2013 is gathered and analysed. The examination is, therefore, to focus on two selected countries, Italy and the United Kingdom, by comparing data on access to finance between the survey carried out at the European Union level (SMEs' access to finance – SAFE – and bank lending

survey), data provided by the Monetary Financial Institution (MFI) and, in the case of the United Kingdom, by the Bank of England. Furthermore, the analysis is to include measures posed at European Union level, member states' provisions at the scoring level as envisaged by the VI principle set by the Small Business Act and to match this to SMEs' loan needs and perceptions about loan availability and willingness (European Central Bank, April 2003–April 2013; European Central Bank, 2009a; European Central Bank, 2009b; European Central Bank, 2009c; European Central Bank, 2011a; European Central Bank, 2011b; European Central Bank, 2012 a; European Central Bank, 2012b; European Central Bank, 2013b; European Commission, 2011a; European Commission, 2011b; European Commission, 2011c; European Commission, 2012b; European Commission, 2012c; European Commission, 2012d; European Commission, 2013c; European Commission, 2013d; European Commission, 2013e; Eurostat, 2013a; Eurostat, 2013b; Bank of England, 2009a; Bank of England, 2009b; Bank of England, 2009c; Bank of England, 2009d; Bank of England, 2010a; Bank of England, 2010b; Bank of England, 2010c; Bank of England, 2010d, Bank of England, 2011a; Bank of England, 2011b; Bank of England; 2011c; Bank of England, 2011d; Bank of England; 2012a; Bank of England, 2012b; Bank of England, 2012c; Bank of England, 2012d).

For those interested in a synoptic representation of the results, this is provided by an examination undertaken through a magnitude coding evaluation presented in Figure 50 and Figure 51. For clarity, a full exposition of the presented data is thereafter provided. The review reveals quite comparable scenarios.

**Figure 50: Elements of finance: Italy based on magnitude coding (evaluative context)**

| Small Business Act 2008 (revised 2011) - elements of finance (VI principle) | | | | |
|---|---|---|---|---|
| **SBA (2)** | **2010/2011** | **2012** | **2013** | **Magnitude Coding** |
| Number of SMEs | 3.762,921 | 3.813,805 | 3.694,288 | Mixed (towards negative) |
| Employment % | 81.4 | 80.3 | 80.0 | Negative |
| Employment % (to EU) | 66.9 | 67.4 | 66.5 | Mixed (towards negative) |
| Value Added % | 71.3 | 68.3 | 68.0 | Negative |
| Value Added % (to EU) | 58.4 | 58.1 | 57.6 | Negative |
| 10 Principles: VI – "facilitate SMEs' access to finance" * | (2005-2011) Low performance Deterioration (Moderate) | (2007-2012) Low performance Deterioration (Medium) | (2008-2013) Low Performance Deterioration (High) | Mixed (Negative/ Deterioration) |
| Banks' willingness to provide loans | (2009 report 2010) Deterioration (Strong) | (2011 report 2012) Deterioration (Moderate) | (2012 report 2013) Deterioration (Extreme) | Mixed (Extreme Deterioration) |
| Interest rates (difference Italy to EU - > 1 ml and < 1 mls) | Italy: 36,28%; EU-average: 23,98% (2010) High-negative | Italy: 24%; EU-average: 19% (2011) High-negative | Neutral (2011 Value) | Negative trend |

| European Central Bank – SAFE Survey (SMEs Perspective) & MFI | | | | |
|---|---|---|---|---|
| **SAFE Elements (2)** | **2009** 1st qtr & 2nd qtr | **2011** Oct.11-March12 | **2013** Apr-Sept 13 | **Magnitude Coding** |
| SMEs cost to credit (not interest rates) | 44.4% & 42% increased by banks | 77% increased by banks | 67% Increased by banks | Negative |
| SMEs interest rate | 35.9% unchanged & 35% decreased by banks | 80% increased by banks | 61% Increased by banks | Mixed *Negative to positive |
| SMEs' access to loan finance a problem? | 15% 3rd place 20% 2nd place | 19% 3rd place | 20% 2ndplace | Negative - a problem |
| SMEs' loan needs | 46% unchanged 50% unchanged | 49% unchanged | 53% unchanged | Positive *increased |
| SMEs perceptions of banks' availability | 43.8% unchanged 44% unchanged | 45% unchanged | 47% unchanged | Positive *increased |
| MFI - Trend interest rates < 1ml euro new businesses (1 to 5 yrs) | 4.37 – yr 2009 4.51 – yr 2010 | 5.83 – yr 2011 | 5.55 – yr 2012 | Negative |
| MFI - Trend interest rates > 1ml euro-new business (1 to 5 yrs) | 2.25 – yr 2009 2.34 – yr 2010 | 3.66 – yr 2011 | 3.38 – yr 2012 | Negative |

**Figure 51: Elements of finance: United Kingdom based on magnitude coding (evaluative content)**

| Small Business Act 2008 (revised 2011) - elements of finance (VI principle) | | | | |
|---|---|---|---|---|
| **SBA (2)** | **2010/2011** | **2012** | **2013** | **Magnitude Coding** |
| Number of SMEs | 1.659,946 | 1.648,938 | 1.666,725 | Mixed (towards positive - slight) |
| Employment % | 53.9 | 54.3 | 52.4 | Negative |
| Employment % - to EU | 67.0 | 67.4 | 67.5 | Positive (slight) |
| Value Added % | 50.2 | 49.5 | 49.8 | Positive (slight) |
| Value Added % - to EU | 58.6 | 58.1 | 58.4 | Neutral |
| 10 Principles: VI – "facilitate SMEs' access to finance" * | (2005-2011) High performance Deterioration (Low) | (2007-2012) High performance Deterioration (Medium) | (2008-2013) High to Low Performance Deterioration (High) | Negative/ Deterioration |
| Banks' Willingness to provide loans | (2009 report 2010) Positive – Strong | 2011 (report 2012) Low (positive) | 2012 (report 2013) Neutral (2011 value) | High Deterioration |
| Interest rates (difference UK to EU - > 1 ml < 1 mls) | UK: 11.24% EU-average: 23.98% Low-positive | UK: 31%; EU-average: 19% (2011) High-negative | Neutral (2011 value) | Negative trend |

| European Central Bank – SAFE Survey (SMEs perspective) | | | | |
|---|---|---|---|---|
| **SAFE Elements (2)** | **2009** 1st qtr & 2nd qtr | **2011** Oct 11 – March 12 | **2013** Apr – Sept 13 | **Magnitude Coding** |
| SMEs cost to credit (not interest rates) | Neutral | Neutral | Neutral | N/a |
| SMEs interest rate | Neutral | Neutral | Neutral | N/a |
| SMEs access loan finance a problem? | Neutral | Neutral | Neutral | N/a |
| SMEs loan needs | Neutral | Neutral | Neutral | N/a |
| SMEs' perception of bank availability | Neutral | Neutral | Neutral | N/a |
| Bank of England – Trend interest rates < 1ml £ new advances | 3.03 – Dec. 2009 3.37 – Dec. 2010 | 3.69 Dec. 2011 | 3.65 Dec. 2012 | Negative |
| Bank of England – Trend interest rates >1 to < 20 mls new advances | 2.25 - Dec. 2009 2.48 - Dec. 2010 | 2.98 Dec. 2011 | 2.69 Dec. 2012 | Mixed (Negative trend) |
| Bank of England – Trend interest rates > 20 mls -new advances | 2.32 - Dec. 2009 1.79 - Dec. 2010 | 2.79 Dec. 2011 | 2.37 Dec. 2012 | Mixed (Negative trend) |

In the face of this research, it is important, in the first instance, to draw on a number of SME trends, in terms of their employment levels, the value added element and, in some cases, to provide comparisons with the levels in other member states of the European Union. This is found to be a constructive measure as a comparative study contributes to understanding further the trends for SMEs

during a recessive period, characterised by new regulations such as the BASEL III and the EBA requirements for banking institutions to control capital and risk.

Italy demonstrates a negative trend in the number of SMEs and employment percentage, as these are reported to have decreased over time. In comparison, the number of SMEs in the United Kingdom have slightly increased. Both in the United Kingdom and in Italy, employment balances report negative trends. The value added percentage contribution is negative in the case of Italy, whilst for the United Kingdom this element produces positive results. In a comparative examination, within the European Union area, for the elements representing unemployment and value added, the United Kingdom show slightly positive and neutral trends, respectively, whilst in the cases of Italy these elements show a negative inclination.

The results provided by the report on the 10 Principles (see European Commission, 2011e) with a specific focus on the 'VI principle', on the countries' ability to 'facilitate SMEs' access to finance', highlights a high level status in both Italy and the United Kingdom with a preponderance towards a deteriorating status for all two countries. At the same time, the spectrum of 'banks' willingness to provide loans' shows lowering levels in the cases of the United Kingdom with an emphatic negative trend in the case of Italy. The deteriorating effects for the willingness to provide finance tend to agree with the conclusive analysis of the European Central Bank surveys presented by this study.

The measurement of interest rates compared to the average level within the European Union area shows a negative trend both in Italy and the United Kingdom. In the context of interest rates applied to new businesses, the MFI in the case of Italy and the Bank of England for the United Kingdom show a generalised increase in the levels. A further analysis on the basis of the SAFE survey carried out by the European Central Bank, for the years 2010 to 2013, indicates a negative trend in the case of Italy. It registers negative trends towards 'cost of credit' and SMEs' perceptions of bank availability. The level of interest rates is perceived by SMEs as having increased in the case of Italy. Trends on interest reflect the evidence provided by the MFI in the case of new business applications. In the case of the United Kingdom, a forward analysis is not possible as the country does not participate to the single monetary market and, therefore, is not represented in the SAFE survey.

SMEs' perceptions about access to loans being a problem and about 'bank availability' are negative in the case of Italy. Such analysis is not, however, available in the case of the United Kingdom as the country is not a participant in the single monetary market; it appears no other comparable data is available.

### 4.3.3 Elements affecting SME lending

The responses to the posed question, answers provided by the survey and those posed by the results in this section are categorised through the application of descriptive coding in order to summarise those elements which affect SMEs' access to credit. The results are categorised and presented by classifying the effects on SMEs and the factors applied by banks in terms of distribution decisions. Figure 52 highlights the results. A brief account of the results follows.

**Figure 52: Results**

| Aspects | Results | Banks | SMEs |
|---|---|---|---|
| Loans | Relevant | Not considered by banks | √ |
| Loan application | Innovation<br>Working capital | | √<br>√ |
| No value on SMEs' innovation | Negative effect on liquidity allocation with repercussions on:<br>- value added | | <br><br><br>x |
| Willingness to lend | Low due to risk | | x |
| Liquidity distribution (influenced by risk and external requirements – EBA and Basel III) | Restricted (tightening on loans)<br>Credit standards tightening<br>Negative effect on:<br>- number of firms<br>- employment<br>- value added<br>Effects mostly:<br>- micro firms<br>- innovative firms<br>- start-ups | √ | x<br><br><br><br>x<br>x<br>x<br><br>x<br>x<br>x |
| Risk – linked to credit (affected by external requirements – EBA and Basel III on risk and capital | Credit lines for SMEs lead to rigour in evaluation and to reduced loan applications due to: | √ | x<br><br><br>Continue on next page |

| | | | |
|---|---|---|---|
| requirements) | - fear of denial<br>- difficulties of applying | | x<br>x |
| Lack of trust | Ineffective to access credit | √ (risk linked) | x |
| Access to credit | A problem<br>Not facilitated<br>Negative perception | | x<br>x<br>x |
| Interest rates | Tendency to increase<br>Considered a problem<br>Considered relevant | <br><br>√ | x<br>x<br> |
| Collateral<br>(at times difficult to evaluate) | Considered a problem – in excess of the amount requested<br>Considered relevant | <br><br>√ | x<br> |
| Guarantees | Considered a problem – in excess of the amount requested<br>Considered relevant | <br><br>√ | x<br> |
| Cost of credit | Tendency to increase<br>Considered a problem | | x<br>x |
| Ratings | considered a problem (limitation) | | x |
| Current and past financial records | Considered relevant<br>Application of rigour | √<br>√ | <br>x |
| Past creditworthiness | Considered relevant<br>Application of rigour | √<br>√ | <br>x |
| Business plan | Considered relevant<br>Application of rigour | √<br>√ | <br>x |
| Specifics on plans/explanation | Considered relevant<br>Application of rigour | √<br>√ | <br>x |
| Note:<br>√ = positive effect (positive towards)<br>X = negative effect (negative towards) | | | |

To exemplify the results presented as a categorisation of the elements, it can be stated that external requirements brought about by Basel III and EBA requirements for capital and risk control have negatively affected credit standards for loans and other credit lines to SMEs. The risk factor appears to play a role in liquidity distribution and willingness to lend. Furthermore, tightening of credit standards delineates a picture where riguor is applied in the evaluation of SME credit allocation. In fact, it appears that whilst banks consider it relevant to request hard type information in the assessment process like ratings, current and past financial records, business plan, ratings and specific explanations of plans, SMEs

considers the requirements to be too tight. SMEs recognise rigour as a limitation in the application for credit due to the fear of denial and difficulties of applying.

SMEs perceive loans as relevant for innovation and working capital. However, results indicate that a restriction on loan allocation brought about by the above described factors have a negative effect on the number of firms, level of employment and value added levels on the economy brought about in the SME section of the market. Furthermore, although the effects involve all SMEs, they generally cascade on to micro-firms, innovative firms and start-ups. SMEs perceive that banks do not assign value to innovative firms.

A further constraint which affect SME lending are guarantees, collaterals, the high levels of interest rates and costs linked to credit. All the above reported elements lead to problems in liquidity distribution. This is shared by SMEs as they perceive access to credit to be a dilemma.

### 4.3.4 Communication effectiveness

The application of the three-dimensional OK Corral, as fully explained in the literature chapter, highlights the positions in relation to the 'ego states' according to four dimensions. This is relevant for explaining and defining perceptions, opinions and influences over decisions. The model provides the foundation to define communication effectiveness by drawing on the considered and enquired aspects and, therefore, yields the basis for causality exploration (Mountain and Davidson, 2015). The question which this section attempts to answer is as follows:

***Q17: How effective is communication between banks and SMEs? How effective is communication between European institutions and SMEs?***

Figure 53 provides an illustration of the OK Corral model portraying the end results.

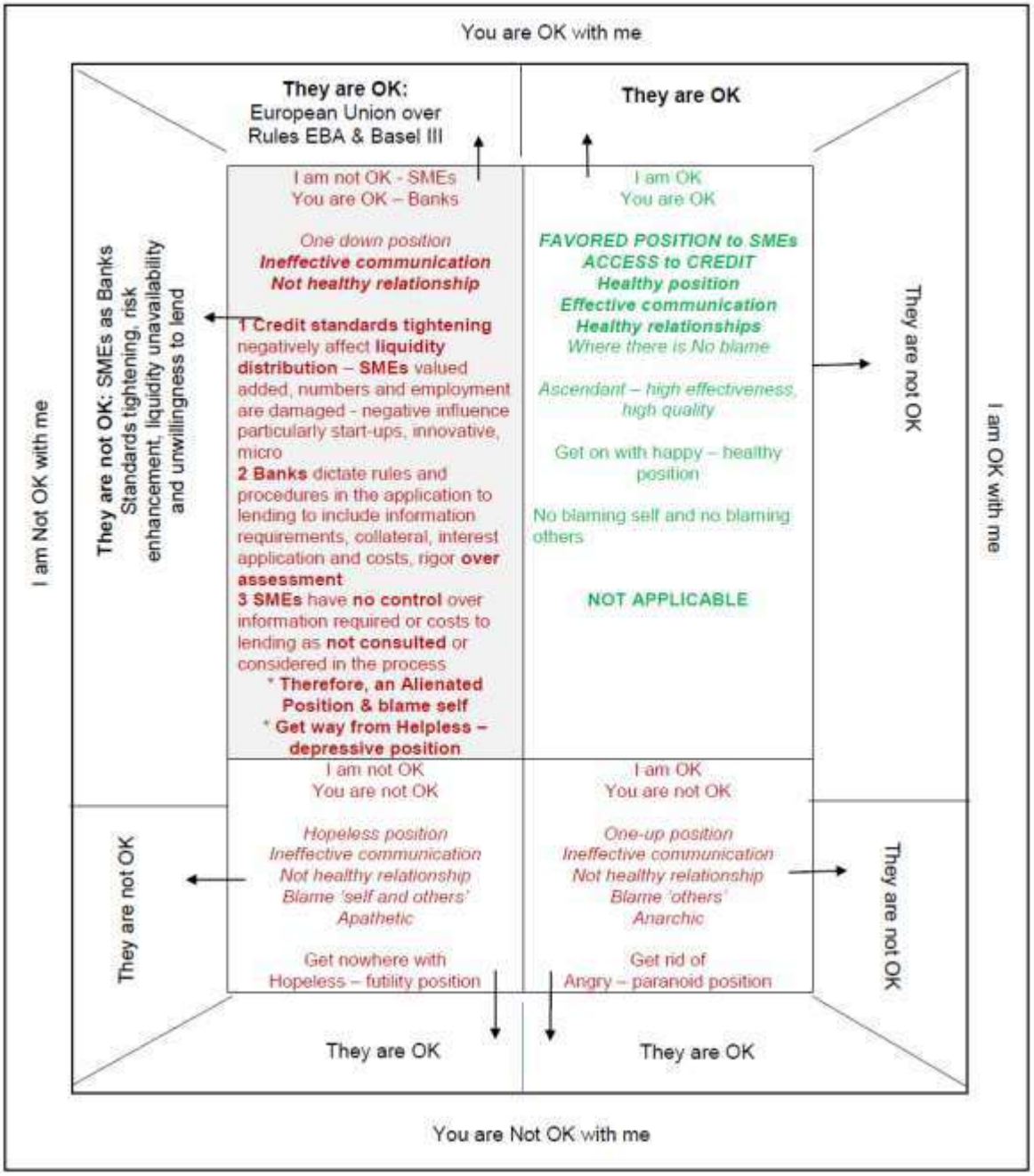
To exemplify, the OK Corral indicates that communication between banks and SMEs is ineffective. The same results are obtained in the case of the European Union, banks and SMEs.

To briefly reiterate, EBA and Basel III regulations have caused standard tightening and an enhancement of risk control with a negative effect on liquidity availability and willingness to lend. This has, in turn, exacerbated lending distribution as the risk factor has a negative effect on the rigour applied by banks to evaluation of SMEs' access to credit. SMEs' valued added, numbers and employment are consequently damaged by the effects of the reduced accessibility to lending. Reduced liquidity distribution has a negative influence on all firms, with a slight emphasis on start-ups, innovative and micro businesses. This highlights an ineffective communication pattern between European institutions and SMEs.

Banks appear to dictate rules and procedures in the application for lending to include information requirements, collateral, interest application and costs, and on rigour in the assessment. In contrast, SMEs have no control over information required or cost of credit. They appear not to be consulted or considered in the decisional process involving these elements. Communication is, therefore, ineffective for establishing a quality relationship between actors.

Information is not channelled between institutions and SMEs or between banks and SMEs. Quality of information and exchange of opinions, views and considerations are a constituent measured by communication effectiveness. This determines the value of information to regulate the state of events (eg: Baas and Schrooten, 2006; Jimènez and Saurina, 2004 and Voordeckers and Steijvers, 2006). The results indicate that, in qualitative and value terms, communication does not favour SMEs' access to credit. The indication is that there is an asymmetry of information from institutions which negatively affects communication and trust (Heide and John 1992 cited in Yang et al., 2016). Lack of trust displayed by SMEs towards banks is a result of the ineffective communications between actors as mutual dependency aimed at reciprocal satisfaction are not fulfilled. The application of the 'blame diagram' on results indicates that SMEs attribute blame to themselves. This is in line with the OK Corral result which, as already considered, portrays communication as ineffective where actors' positions are of alienation to denote negative connotations which translate into a depressive position. This indicates restricted control, obligations to follow directions and rules (Wickers 1995 in Mountain and Davidson, 2015).

**Figure 53: Communication effectiveness: banks vs. SMEs – application of OK Corral model**




Source: adapted from Mountain Associates, no date and Mountain and Davidson, 2015

### 4.3.5 Causality results

Following the analysis of elements of lending and communication effectiveness, this section attempts to provide results, by way of 'data reduction' (Miles and Huberman,1994) on the basis of interactions and dynamics to delineate the effects on SMEs' access to credit. Therefore, the following question is posed:

***Q18: What are the effects on SMEs' access to credit?***

Figure 54 provides a presentation of the results and the effects on SMEs' access to credit. To illustrate the results based on causality analysis, a description is provided.

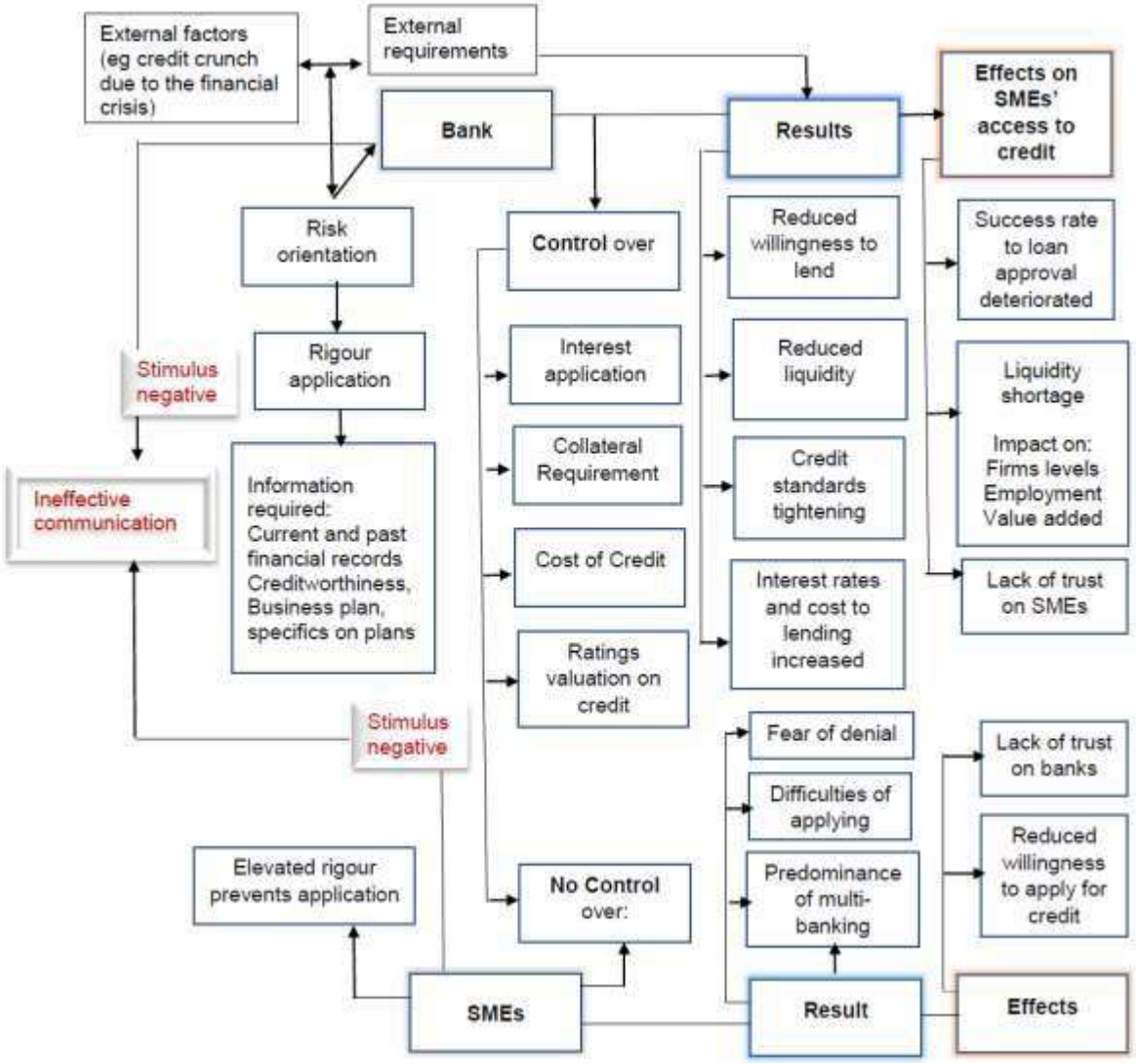
Building on communication results, as displayed in the previous section, the stimulus position assumed by banks and SMEs is negative, and follows the pattern of communication ineffectiveness brought about by an asymmetry of information which determines a quality and value inadequacy between actors.

As previously illustrated, external factors contribute to risk control through the application of rigour over information required by banks for SMEs for credit applications. Furthermore, banks appear to have control over interest rates and costs applied to loans together with the levels of collateral, other guarantees and rating valuation requirements to sanction credit. The results are a reduced willingness to lend, reduced liquidity availability, credit standards tightening, an increase in interest rates and costs of credit. The effects are a deterioration in the success rate for loan approval and liquidity allocation with an effect on firms' numbers, employment and added value which further exacerbate credit and enhance banks' lack of trust in SMEs' ability to refund the debt.

This picture highlights a situation which poses limits to SMEs' credit applications. In fact, SMEs have no control over costs of lending nor does there appear to be any type of conferring between parties about rigour or required collaterals or other types of guarantee. SMEs' opinions on collaterals and guarantees are dismissive of banks' orientation towards firms' values in terms of innovation and the

importance represented by SMEs. Indeed, their opinion highlights that banks require excessive and unreasonable amounts in terms of collateral or guarantees and ratings to cover credit requirements. Furthermore, the inability to provide financial or asset resources to cover loan requirements and the rigour applied to the assessment process together with high interest rates and costs, lead SMEs to relinquish loan applications due to the fear of denial and the difficulties in the application. Another aspect which arises is SMEs' reliance on different banking institutions. The effects on SMEs are a lack of trust in banks and a possible reduction in the willingness to resort to loans to finance innovation and working capital.

**Figure 54: Results based on causality**



## 4.4 Lending technologies

This section attempts to provide an answer to questions as follows:

***Q19: What elements direct banks towards the choice of an approach to lending?***

***Q20: What is the perspective and the opinion on SMEs in terms of elements affecting access to credit?***

***Q21: What lending technologies are applied in Italy?***

To answer the proposed questions, it is considered relevant to provide a brief outline of the application of lending technologies in the assessment for SMEs' access to credit. This section proposes illustrating those recognised influencing factors in lending technologies applied in the three countries. Italy and the United Kingdom represent the basis of the research survey; therefore, reporting on the application of their lending approaches appears pertinent in answering the proposed questions. However, for completeness purposes, it is found appropriate to report aspects related to different applications of lending technologies.

Therefore, to address the gap, it is felt relevant to provide a comparative study showing Italy's results against two secondary countries which apply different approaches to lending in terms of evaluation of SMEs' access to credit. This, it is felt, can provide a more comprehensive outlook on the elements which characterise this aspect of SMEs' access to credit to then determine conclusions. An illustration of lending approaches context for each country is presented in Appendix D. Data analysis is based on 'data reduction' (Miles and Huberman,1994) of individual countries reports on elements influencing SMEs' access to credit. This section firstly provides results on the relevant elements in the application of lending approaches collected on the basis of results reported by the Bank of Italy study conducted by Albareto et al. (2010), Alberato et al. (2008) and ISTAT (2011b) in the case of Italy, the BDRC Continental (2012), Berry et al. (2004), Varley et al. (2010), BIS (2010a) and Mullineux and Terberger (2006) for the United Kingdom and Elsas and Krahnen (998), Elsas (2005), Behr et al. (2004), Behr and Güttler (2007), the International Monetary Fund (2011),

Hackethal and Schmidt (2005) and the Deutsche Bundesbank (2012) related to Germany. The focus is then orientated on the results obtained by the analysis of the data from the research survey.

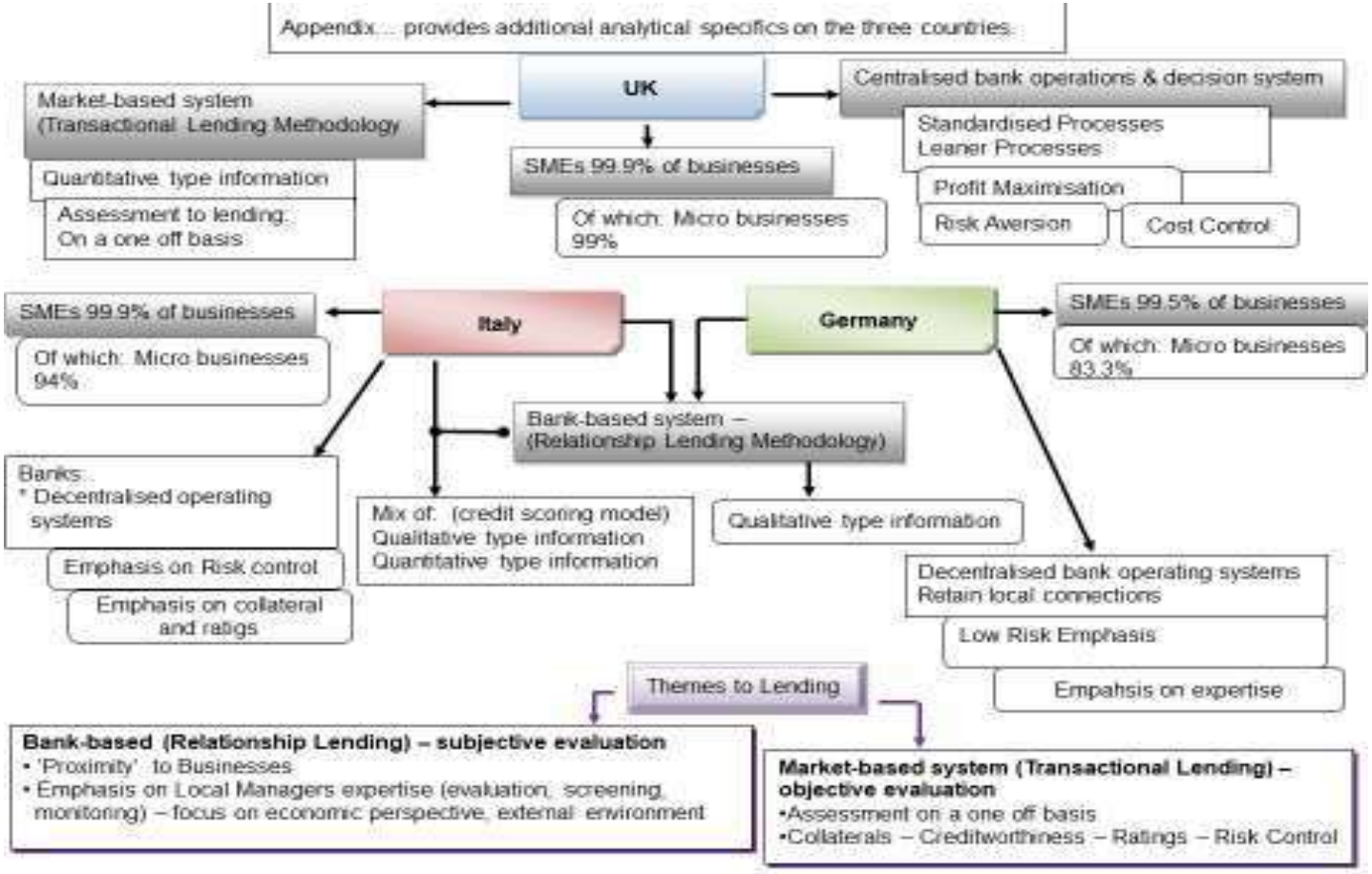
For a rapid consultation of the main characteristics linked to the application of lending technologies, a synopsis is presented in Figure 55.

To briefly outile, a transactional approach, as in the United Kingdom, is typical of a centralised system where banks' strategy is orientated towards profit maximisation and a reduction of local branches. The assessment processes for lending are based on a one-off transaction. Assets-collaterals and indebtedness are also relevant elements of the assessment for SME lending. Lending activities are, in fact, based on 'hard' information, through the application of transactional lending, whereby quantitative information technologies are applied. The approach is objective and unbiased, due to the absence of personal involvement in the decision-making process, aimed at cost reduction and risk avoidance to possible creditor defaults. There is a propensity to apply 'standardised' and 'leaner' decisional processes towards lending, where applications demand collateral and third-party information, such as creditworthiness and performance ratings.

In contrast to the United Kingdom, creditable institutions indicate that both Italy and Germany operate a system approach where relationship lending for SMEs' financial activities is enhanced. In both countries, relationship building with the local community is boosted by a decentralised system designed to facilitate a local presence. Relationship lending is viewed as a value added ingredient whereby discretion over lending is exercised. The application of a relationship lending approach is considered a relevant element even though the two countries apply different approaches towards credit assessment. Italy operates a mixed approach to SME lending through a credit scoring system to evaluate both qualitative and quantitative data by associating soft type information from a relationship type approach with hard type data. The attempt is to apply objectivity to the assessment process to address the risk element. Collaterals, financial statements and ratings are considered relevant to SMEs' access to credit. However, it is reported that, in 80% of cases, the main factors in the decision are the existing relationship and the importance that institutions place on this market segment, together with the ability to create effective communication.

Germany applies a qualitative evaluation system to lending based on a regional and subsidiary principle, focusing on local communities to enhance growth and wealth, whereby SME development is considered an important element. The local presence, due to the element of ‘proximity’, enhances relationship building with the local community. The client’s business knowledge, in both the external and internal context, is conceived as an element that adds value to the evaluation process, decreasing risks linked to credit and increasing client retention, limiting the multi-banking issue. The risk element considers economic perspectives, the external environment, with an emphasis on sectors and segments, and guarantees which are requested on the basis of firms’ availability.

**Figure 55: Italy, the United Kingdom and Germany – approaches to lending**



From the description on lending technologies, the results highlight different applications. The application of approaches to lending to evaluate SMEs is mainly oriented towards the risk element. Transactional lending is directed towards profit maximisation and control over cost of lending and is characterised by risk aversion. A relationship lending application aims to address control of the risk but wealth creation is considered a relevant factor. A mixed approach where the assessment is based on hard and soft type information is directed towards risk control.

The research survey results indicate not only that rigour applied to lending applications is critical but also paint a picture where banks' operators' expertise is considered inefficient for serving the business segment. In fact, SMEs indicate as constraints the lack of competent representation on the knowledge of the external environment, on the business fabric and on the firms' status. This, together with a lack of competence in understanding explanations of business elements, an objective evaluation of credit and the non-transferability of the soft information provided to systems applied to clients' assessment, lays the foundations for the limitation of credit distribution. The above considerations, together with the perceived difficulty in applications for credit, leads to SMEs' lack of trust in banks and the fear of denial of loan requests and resorting to multiple banking interactions. Figure 56 provides a complete evaluation of the results based on lending technologies application and on the research survey.

To conclude, SMEs' opinions and perceptions deriving from the analysis of the research survey highlight that a relationship lending application can be effective in addressing constraints to lending. Based on their perceptions, the recognised constraints, such as cost of credit, terms and conditions, success in loan application, interest rate levels and choices of services provided are addressed by this kind of lending technology application for credit access. The increased success in loan applications might result from banks' orientation towards the application of soft information to the evaluation process. This assessment is supported by expertise on the evaluation based on firms' economic perspectives and the external environment orientated towards sectors and segment data. Banks request guarantees on the basis of SMEs' means of resources.

The research survey results on SMEs delineate a situation where banks' expertise in the evaluation process is not effective. This is based on an objective assessment where rigour over creditworthiness, collaterals, guarantees, ratings and information requirements is emphasised. When soft information is provided this is not transferred to evaluation systems. This provides a picture of an application of transactional lending for SMEs' access to credit. In the light of the fact that 83 out of 92 respondents in the survey are from Italy, the results provide a different conclusion drawn from the analysis of data if compared to country's recognised bodies in terms of external determinations. This indicates that banks are not appraising SMEs on the basis of a mixture of two lending technologies. In fact, the presented mixture of the two lending technologies for Italy requires a need for a competent representative, an understanding of business elements, the expertise to evaluate soft type transferrable information and to positively address cost of credit, loan allocation, interest rate levels and limitations to credit access like guarantees and collateral levels. SMEs' perceptions and opinions highlight a different panorama.

**Figure 56: Lending methodologies and elements of lending vs. SMEs based on magnitude coding (evaluative content)**

| **United Kingdom**<br>**Centralised system** | **Italy**<br>**Decentralised system** | **Germany**<br>**Decentralised system** |
|---|---|---|
| **Lending Approaches of Banks to SMEs**<br>**(based on National Bodies' surveys and evaluations)** | | |
| **Transactional Lending**<br>Assessment based on:<br>***** Assets – collateral<br>***** Creditworthiness<br>***** One-off basis credit<br>* Standard process<br>* Leaner processes | **Ranking system & Relationship Lending**<br>Assessment based on:<br>Ranking mainly by:<br>1st credit relation with the system (creditworthiness)<br>2nd relationship with the bank (soft data)<br>3rd financial statements (hard data)<br>4th other external information<br>5th qualitative data (soft data)<br>6th local and sector data<br>7th relationship with the banks' group<br><br>(Includes collaterals, ratings) | **Relationship Lending**<br>Assessment based on expertise orientation to evaluation:<br>* Soft data (subjective)<br>➢ Economic perspectives<br>• External environment<br>(emphasis on sectors and segments)<br>* Guarantees on the basis of firms' availability<br><br>Continue on next page |

| | | |
|---|---|---|
| **Risk aversion**<br>**Cost Control (reduction)**<br>**Profit maximisation** | **Risk control** | **Risk control**<br>Concentrates on regional wealth creation (regional principle, no competition between branches & emphasis on local community towards investment & growth) |

| **SMEs' opinion on elements – Survey**<br>**(mainly based on Italy – responses mainly from Italy (**83 out of 92 participants) | |
|---|---|
| Collateral | Critical |
| Guarantees | Critical |
| Ratings | Critical |
| Interest rates | Critical |
| Cost of credit | Critical |
| Limits on loans | Critical |
| Rigour over assessment (information required) | Critical |

| **SMEs' recognised discriminating and limitation elements – Survey** | |
|---|---|
| **Elements / Aspects** | **Evaluation (Magnitude coding)** |
| * Lack of trust | Critical |
| * Limits on loans<br>• restrictions in credit allocation and assessment<br>• restrictions to limit distribution<br>• risk impairs willingness towards credit distribution | Critical |
| * Lack of competent representative (knowledge of external environment, knowledge of business fabric, knowledge of the firm status) | Critical |
| * Understanding of business elements (reported not understanding explanations) | Critical |
| * Objective evaluation | Critical |
| * Explanation and soft type information not transferred to information systems used for assessment | Critical |
| * Lack of expertise to evaluate | Critical |
| * Lack of information about businesses | Critical |
| * Business ratings | Critical |
| * Fear of denial – in the application | Critical |
| * Difficulties in applying for credit – limiting factor represented by rigour over information required (eg: creditworthiness elements, plans, past and present records) | Critical |

| **SMES's opinions on relationship lending application – Survey** | | |
|---|---|---|
| **Elements** | **Evaluation** | **Resulting Inferences** |
| Cost of credit | Positive | Success in loan application indicates that limitations are addressed:<br>* rigour<br>* collateral<br>* guarantees<br>* ratings |
| Terms and conditions | Positive | |
| Success in loan application | Positive | |
| Interest rate level | Positive | |
| Choice of services provided | Positive | |

Continue on next page

| | |
|---|---|
| SMEs' number of relationships (not intended as relationship lending but correlations) – multiple banking: | |
| From two to ten (% terms) | Critical |
| Green = Pos. (Positive effects – favouring SMEs' access to credit)<br>Red = Crit. (Critical – Restraining Force – not favouring SMEs' access to credit ) | |

### 4.4.1 PAC ego states

The PAC ego states attempt to address the following question:

***Q22: What are actors' thoughts over the two phenomenological realities?***

The analysis of the ego states is able to delineate actors' ways of thinking. Ego states address real positions occurring in the communication analysis which delineate thoughts over the phenomenological realities where propositions and actions translate into reactions (Jayantee, 2006; Corey, 2016; Mountain Associates, no date; Vysledky 2015; Harris and Harris, 1995; Berne, 2016a; Stewart and Joines, 2012 and Berne, 2016b).

The analytical results are based on the answers to questions 19 and 20 proposed by this section on the application of lending methodologies applied by banking institutions and on SMEs' perceptions and opinions.

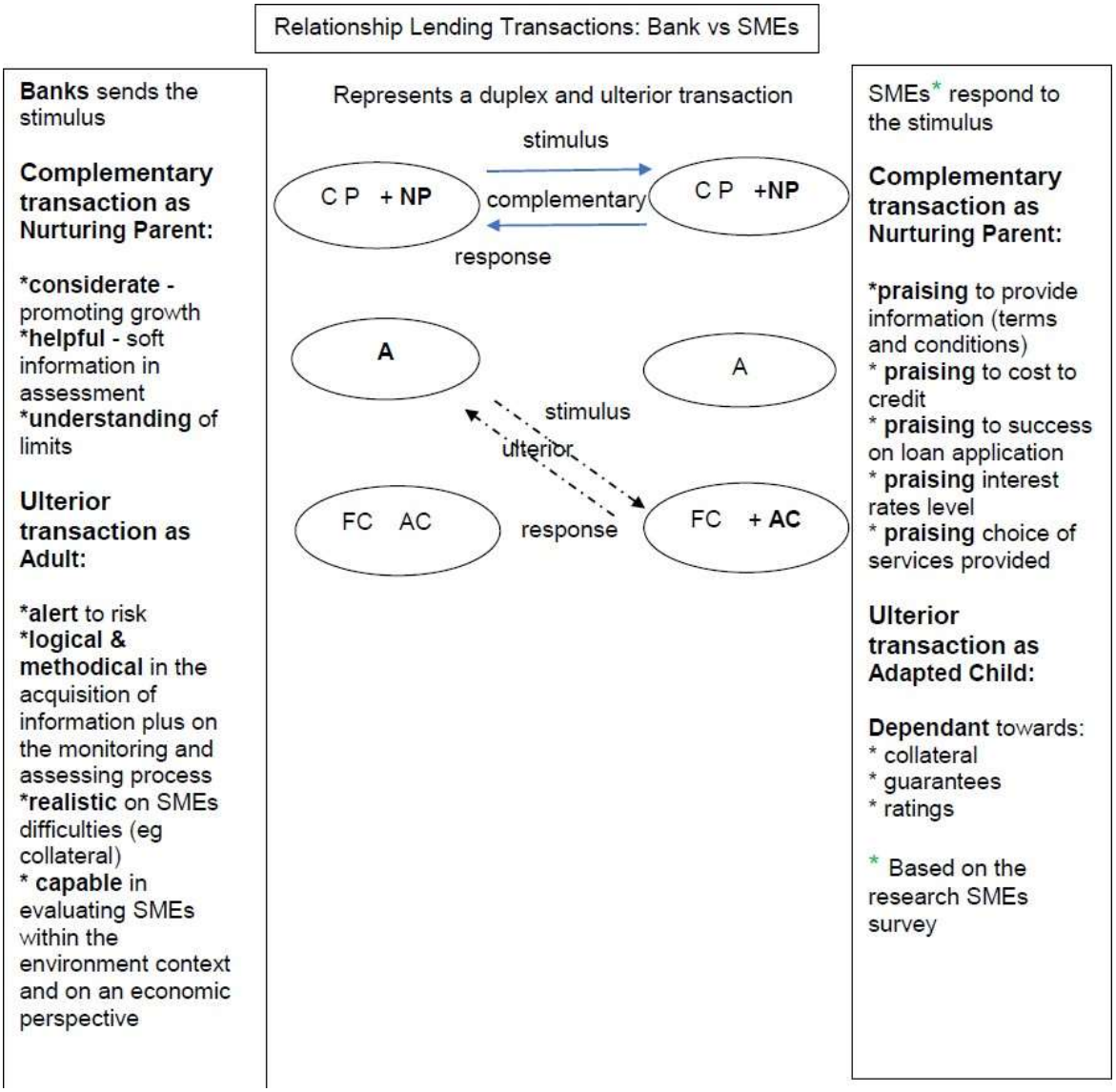
Based on Williams and Williams (1980) 'replicates sub-scale of the 'adjective check list' (ACL)' as illustrated in the literature chapter, the results of a relationship lending approach indicate that the positions assumed by banks, as senders, and SMEs, as respondents, are 'complementary' and 'ulterior'. The SMEs' responses and the banks' stimuli are represented by the same ego states and are, therefore, congruous. The interrelation represents a duplex and ulterior transaction (Booth, 2007; Hollins Martin, 2011 and Berne, 2016a). Effective transactions, therefore, occur as interactions are complementary and between positive ego states (Jayentee, 2006; Hollins Martin, 2011; Stewart and Joines, 2012; Berne, 2016a; Harris and Harris,1995 and Stewart and Joines, 2012). Communication transactions based on ego states are displayed in Figure 57.

Ego states are representative of a positive ‘nurturing parent’ to represent a figure inclined to provide support. In the case of banks, they are considerate in promoting growth, by being helpful in applying soft information in the assessment process and understanding the firms’ limits. From the SMEs’ perspective, they praise information provision in the form of terms and conditions, reduced cost of credit, improved success in loan applications, better interest rate levels, enhanced choices of services provided.

On the other hand, results indicate that, while banks represent the adult ego state indicating a focused standpoint, SMEs respond to the stimulus in the form of a positive adapted child reflecting a submissive viewpoint. This transaction, indicating an ulterior position, involves different ego states revealing hidden meanings and outlining an appropriate communication transfer between actors with an effective consideration of SMEs’ limits. The transaction shows banks as alert to risk, logical and methodical in the acquisition of information and in terms of monitoring and assessment processes, realistic about firm’s difficulties like collaterals and guarantees and capable of evaluating SMEs within the context of their environment and from an economic perspective. The position of SMEs is represented by the adapted child as they are dependent on collateral, guarantees and ratings applied to credit access although the perception on improved success for loan applications guides them to infer that these aspects are positively addressed.

The results highlight a positive communication pattern between banks and SMEs in the application of a relationship lending type assessment. The analytical results do, therefore, point towards relationship lending as an effective approach that might favour SMEs’ access to credit.

**Figure 57: Communication dynamics – relationship lending technology for lending**




Source: adaptation of Martin, 2011, pp.589-590 and based on Williams and Williams, 1980, p.124

In a transactional lending application, based on Williams and Williams (1980) 'replicates sub-scale of the 'adjective check list' (ACL), the results point to 'crossed' and 'ulterior' positions. A crossed position occurs when the response to a stimulus derives and is directed towards different ego states than the ones expected and, therefore, expectations are not fulfilled. The transaction is consequently not effective (Jayentee, 2006; Hollins Martin, 2011; Stewart and Joines, 2012; Berne, 2016a; Harris and Harris, 1995 and Stewart and Joines, 2012). Communication transactions based on ego states are displayed in Figure 58.

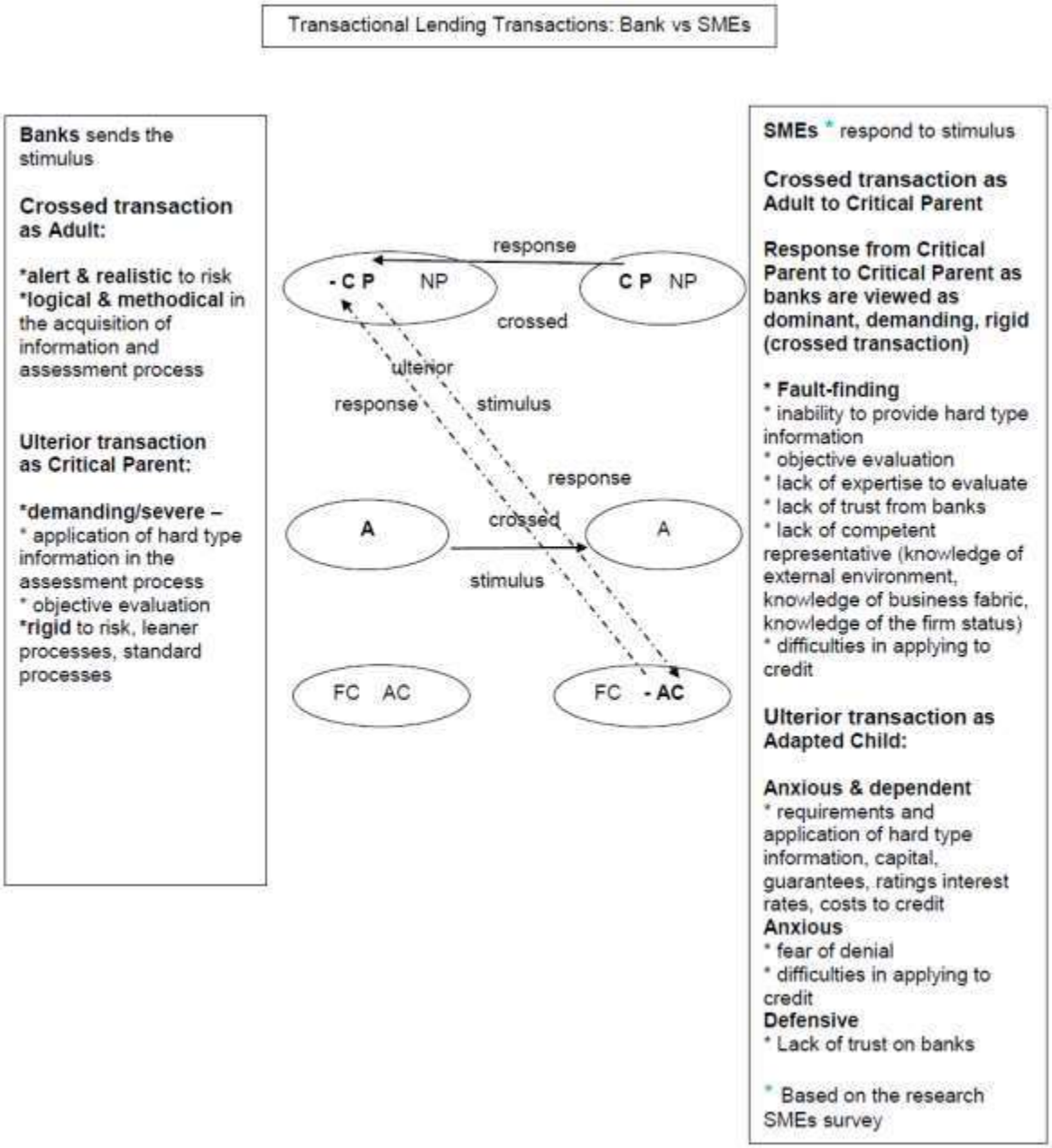
Results indicate a crossed transaction between banks and SMEs where the sender directs the stimuli towards an adult ego state hoping for a complementary response. However, the respondent represented by the SME directs the reaction from critical parent to the sender critical parent. Banks are alert and realistic about risk and logical and methodical in the acquisition of information and the assessment process. SMEs are fault-finding in their ability to provide hard type information, their assessment of banks' application of objective evaluation, on their lack of expertise in assessing firms and on the perceived lack of trust from banks. Furthermore, SMEs are inclined to view banks as lacking competence as representatives have no knowledge of the external environment, no knowledge of the business fabric, no knowledge of the firm's status and the firm's difficulties in applying for credit. SMEs' respond to a critical parent instead of to an adult ego state as they perceive banks to be dominant, demanding and rigid.

The ulterior position, where the transaction is complementary and where stimuli and responses occur between different ego states, represents hidden meanings. The representation displays a negative critical parent for banks and a negative adapted child for SMEs, outlining an appropriate communication transfer between actors but an ineffective stimuli pattern. Banks represent a negative 'controlling parent' inclined to impose limits and be judgmental about reality. They are demanding and severe in the application of hard type information in the assessment process, opinionated and apply prejudice in an objective evaluation and rigid in the application and consideration of risk and the application of leaner and standard processes. SMEs respond with the application of a negative adapted child to represent a submissive figure as they depend on third parties' decisions. SMEs are anxious and dependent towards the requirements and the application of hard type information, capital, guarantees, ratings, interest rates and costs of credit. Furthermore, SMEs are anxious because of the fear of possible denial in the lending application and the difficulties in applying for credit making them assume a defensive position in lacking trust in the banks.

Results indicate a negative communication pattern between banks and SMEs when a transactional analysis is applied to SMEs' access to credit.

The analytical result, based on the application of transactional analysis, proves, therefore, to be ineffective in serving SMEs but positive in addressing risk.

**Figure 58: Communication dynamics – transactional lending technology for lending**




Source: adaptation of Martin, 2011, pp.589-590 and based on Williams and Williams, 1980, p.124

### 4.4.2 Local lending

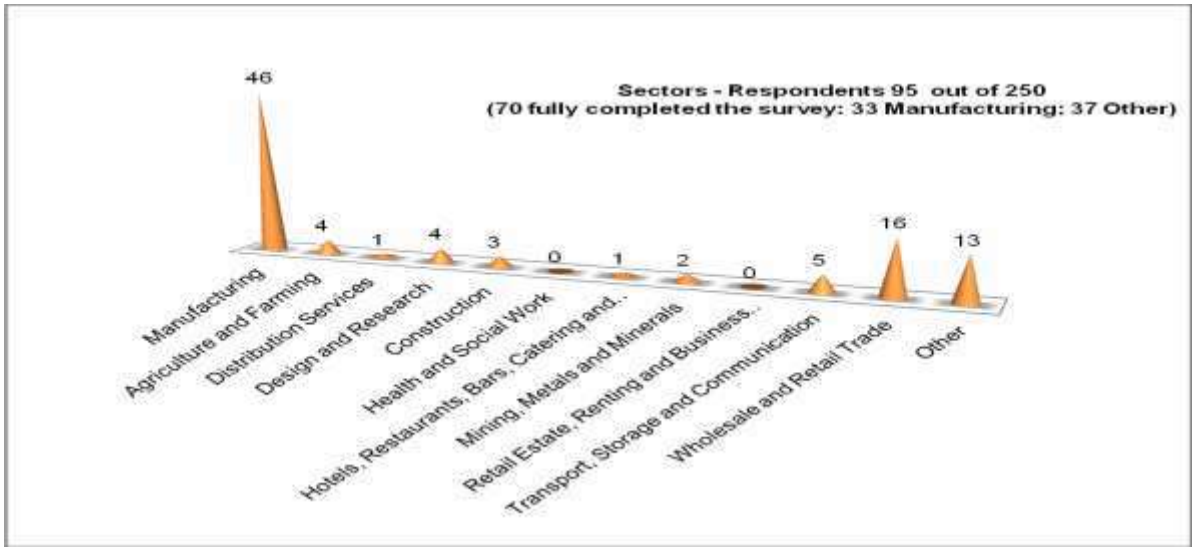
The analytical results that follow aim at highlighting, within the Italian panorama, the effects on those recognised relevant elements in a context where district forms are highlighted by the literature as synergic realities. Local lending might, therefore, be enhanced and cooperative banks play an important role in reducing constraints and costs for SMEs (Hasan et al., 2017; Berger et al., 2015; Hakenes et al., 2017). The context in which the Italian system resides and evolves is illustrated in Appendix E.

Local lending represents a complementary ingredient in relationship lending as envisaged by the conceptual framework shown in the literature chapter. Data is drawn from different sources represented by the research survey on SMEs' perspectives and opinions and, where possible, on surveys conducted by recognised bodies. The recognised bodies are mainly represented by the European Central Bank, the Cerved group and Beghelli. The survey conducted by Beghelli et al. (2011 and 2012) is representative of businesses in the Emilia-Romagna. This assumes relevance for comparative purposes as the Emilia-Romagna is a district defined as a 'unique big multi-sectoral district' (Carminati, 2006, p.14).

The SME survey was primarily conducted within the Venetian region in Italy as explained in the methodology and data chapter and this is relevant to the analysis. To briefly review the information, the region was selected due to a high concentration of industrial districts with a presence of 46 districts out of a total of 172 (Carminati, 2006). The survey was based only on the SME market segment following the European indicators on employees and turnover levels which fall between 0 and 250 and 0 and 50 million Euros respectively. Looking at primary data, out of 250 participants representative of all sectors, 70 fully completed the survey. Out of the 250 participants, 95 responded fully or partially to the survey; of these, 46 represented the manufacturing sector. Further evaluation underlines that 70 respondents fully completed the survey, of these 33 appertain to the manufacturing sector whilst, 37 are representative of other market segments. Manufacturing is the focal point of this study and, therefore, the following analysis

converges towards this sector, unless otherwise stated to allow for comparison purposes. Within the manufacturing sector, out of the 33 respondents, 18 pertain to the micro segment whilst 9 and 5 belong respectively to small and medium sized businesses. Figure 59 exemplifies this.

**Figure 59: Survey respondents' analysis**




The final results are based on data reduction (Miles and Huberman, 1994) evaluated by the application of magnitude coding (Saldana, 2013). The aim is to provide answers to the following questions.

***Q23: What type of lending is most representative?***

***Q24: What is the importance assigned to lending?***

***Q25: What are the types of banks through which SMEs apply for loans and micro-lending?***

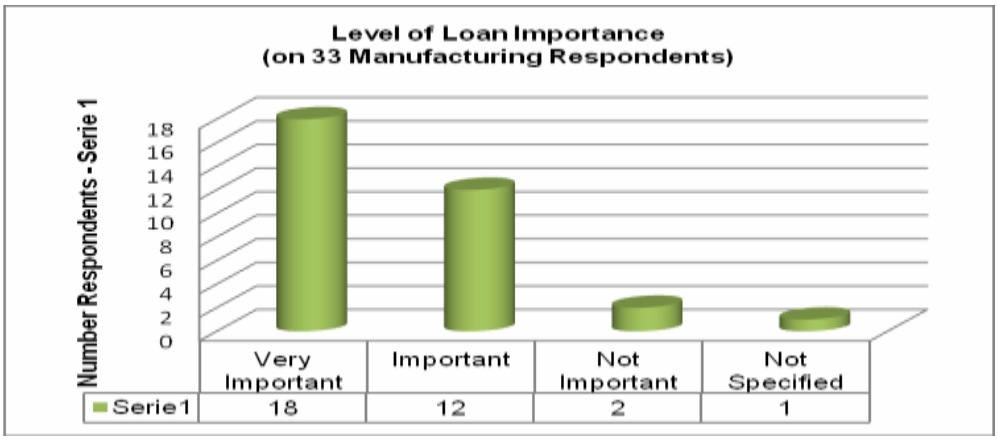
***Q26: What elements are identified and addressed?***

***Q27: What are the effects on SMEs' access to credit?***

#### 4.4.2.1 Results

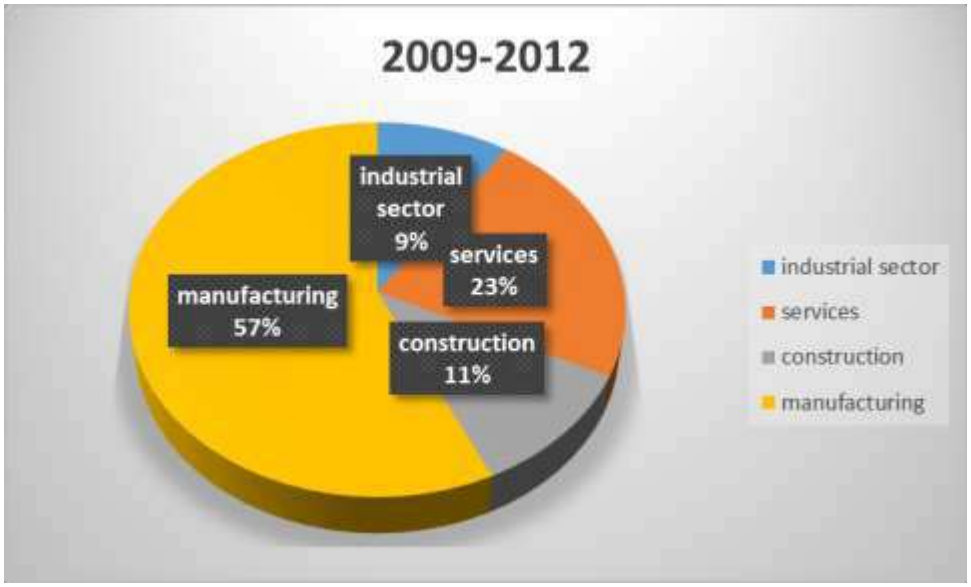
The research survey highlights that bank loans are relevant. In fact, responses fluctuate between the ‘very important’ and ‘important’ option. It appears relevant in the light of this research to highlight that, in Italy, the inability to access liquidity is influential in the closure of SMEs. Survey results, based on the Venetian region, underline that bank loans are relevant for the majority of respondents as illustrated in Figure 60. However the analysis tends to indicate that, in 20 cases out of the 33 analysed, access to credit can be a problem.

**Figure 60: Loan relevance**




As underlined by the survey results, loans are relevant to SMEs but access represents a problem. An analysis of the data gathered from the Cerved Group and Confindustria, as representative authoritative bodies in Italy, and il Sole24Ore offer a significant perspective. Figure 61 illustrates the number of closures of SMEs due to the credit crunch.

**Figure 61: SME cessation**



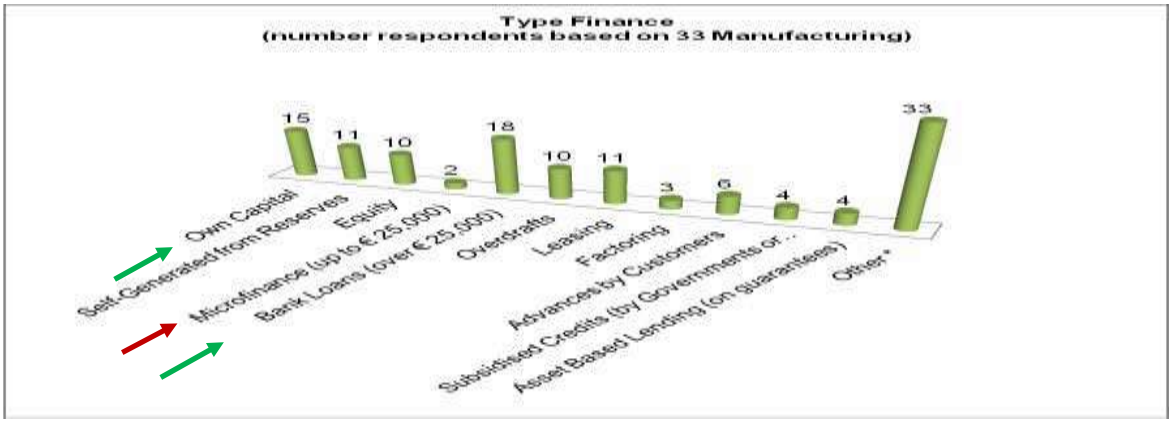

To exemplify, the Cerved Group (2013) provides an indication of the number of business cessations. Firms closing between 2009 and 2012 are reported to be 45,184 of which 9,098 were in the industrial sector and 21,702 and 10,381 were in the service and construction sectors, respectively. This is an indication that innovative types of business are greatly affected (Cerved Group, 2013). The il Sole24ore (2013) indicates that, in 2013, business closures were up by 13% from 2012. The reduction in the number of businesses with a negative impact on the industrial sector and, therefore, within the district context is significant. Geographically, the incidence is reported as being greater in the North West and the South, with 14,573 and 11,917, respectively (Cerved Group, 2013). In the North East and in the centre, closure of firms numbered 9,757 and 10,416 (Cerved Group, 2013). Between 2009 and 2011, although a total registration of 12,477 businesses is reported within manufacturing, the indication is of a net decrease of 30,023 in the number of total entities (Paolazzi and Traù, 2012, p.25). Within the manufacturing sector, the number of business closures is reported to be 54,474 between 2009 and 2012 (Labartino et al., 2013, p.16). Firms defaulting in 2012 numbered 12,442 (IlSole24ore, 2013); a 64% increase from 2008.
Beghelli et al. (2011) report a high percentage of inadequacy of credit availability and a difficulty in raising liquidity through banking institutions. This factor is substantiated by Ricciardi (2013, p.40), who reports that 60% of businesses have liquidity problems and 40% have interrelation problems with banking institutions.

Furthermore, there is a tendency to suggest a negative trend in credit distribution to most sectors (Beghelli et al., 2011; Beghelli et al., 2012 and ISTAT, 2012). The major incidence is reported for the industrial sector with a negative variation of 10.1% between 2011 and 2013 against a total decrease of 11.6 % within the other sectors (Labartino et al., 2013, p.39). The reported tendency agrees with the research survey on SMEs' perceptions and opinions and with the SAFE survey (European Central Bank, 2011a; European Central Bank, 2011b; European Central Bank, 2012a and European Central Bank, 2013b).

As illustrated in Figure 62, participants' survey responses underline that the type of finance employed is consistent and it is mostly represented by own capital, reserves, equity, bank loans, overdrafts and factoring. Bank loans and own capital are the most used form of finance. This shows consistency with the analysis of the banking sector within this study, where it is specified that businesses are consistently self-financed. Furthermore, the survey highlights that, in most cases, financing is drawn for working-capital purposes and only in 5 cases out of 33 is it employed for long-term investment to innovate and grow. It should be underlined how the analysis points towards negligible application of microfinance as a form of financing.

The Beghelli et al. (2011 and 2012) survey findings tend to corroborate the research survey's results on the perception of the participants as businesses tend to raise finance mainly through their own capital and bank loans.

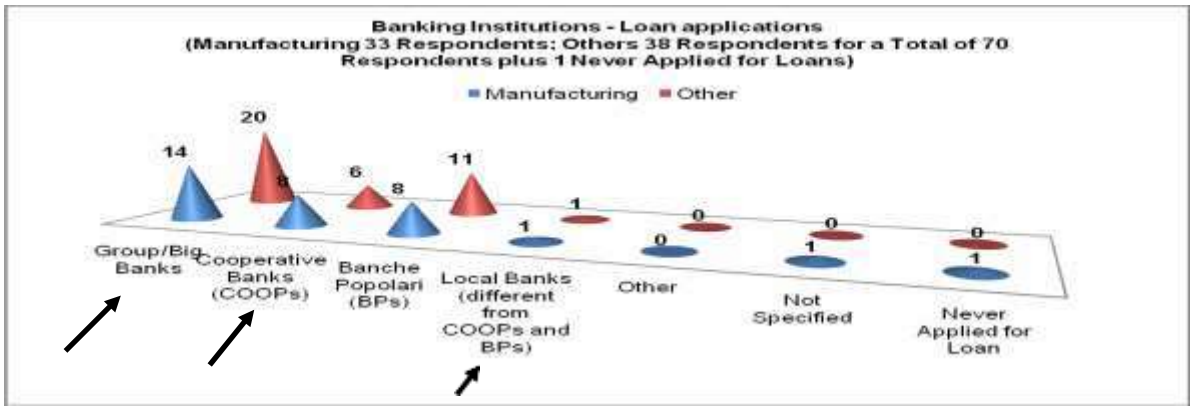
**Figure 62: Financing**




* Other is represented by: Advance Payments, Asset Lending, Invoice Discounting, Credit Cards, Commercial Credits

Specific questions on the reliance of bank loans have underlined that, in the case of the manufacturing sector, 25 respondents out of 33 do actually make use of this kind of resource. This is consistent with the responses on ‘type of finance’ offered by the analysis whereby bank loans, over Euro 25,000, are the second form of financing. An interesting point is offered by the analysis on the question about ‘bank institutions’ use (Figure 63). In this case, for consistency and for a better representative analysis, a comparison is offered between the manufacturing and other types of sector. In both cases, applications are placed mostly through larger commercial banks followed by Banche Popolari which function as commercial institutions for SMEs. In the case of the manufacturing sector, however, the Cooperative Banks (COOPs) are second together with the Banche Popolari.

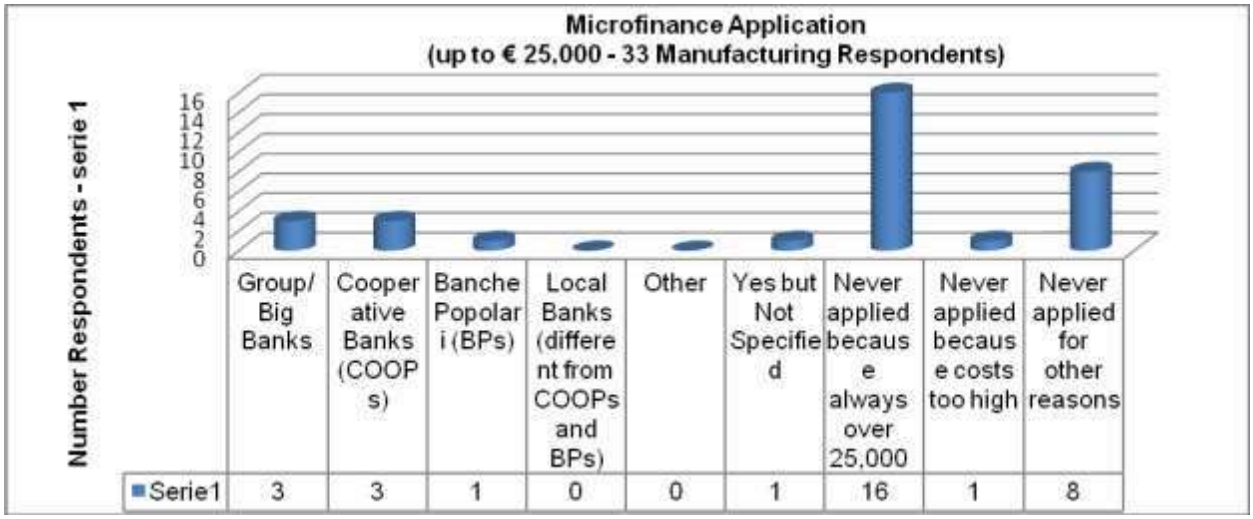
**Figure 63: Lending institutions**




Partially agreeing is the result from Beghelli et al. (2011) which indicates that businesses tend to apply for credit mainly through Cooperative Banks with commercial banks as a second choice. In the context of the CONFIDI (MGI), Beghelli et al. (2011) report that businesses within the industry sector avail themselves of these realities to access credit but highlight how costs linked to their services have a negative impact on their use and that firms considers MGI not to be useful in accessing credit. They reported that respondents indicated factors like access to credit and interest rates as improved by a CONFIDI application. However, aspects like amount of credit, guarantees, costs and commissions and consulting services are not affected by CONFIDI.

An important element which the research survey highlights is a very low microfinance application level. Where the applications for microfinance occur, SMEs tend to submit through larger commercial banks or cooperative (COOPs) institutions (Figure 64). Specifically, the survey highlights that application for microfinance-type loans under €25,000 occur in the case of micro and small business and with a prevalence in the manufacturing, construction and transport, storage and communication sectors. When not choosing to apply for micro-financing, SMEs highlighted two main reasons. The first is that the application for loans is always over €25,000. The second is not applying for any type loan. Questions on process application and on guarantees and documentation requirements indicate that, in both cases, they were generally satisfactory.

**Figure 64: Microfinance**




The Beghelli et al. (2011 and 2012) survey evidence suggests high interest rates and costs/commission applications to loans. The SAFE survey conducted on SMEs by the European Central Bank confirms these trends (European Central Bank, 2011a; European Central Bank, 2011b; European Central Bank, 2012a; European Central Bank, 2013b and European Central Bank, 2012b). Furthermore, both the surveys conducted by Beghelli et al. (2011 and 2012) and the SAFE (European Central Bank, 2011a; European Central Bank, 2011b; European Central Bank, 2012a and European Central Bank, 2013b) indicate capital, creditworthiness and collateral as factors affecting credit allocation. Participants in the Beghelli et al. (2012) survey recognise that ratings represent a problem. These aspects are in line with the research survey in which participants consider these

factors as limitations in SMEs' access to credit. Figure 65 exemplifies the analytical results.

**Figure 65: Analytical results – based on magnitude coding (mixture frequency, weight and evaluative content)**

| RESULTS | | | | |
|---|---|---|---|---|
| **Relevant Aspects** | **This research SMEs' survey on perception/ opinion** | **Beghelli et al 2011 (district context)** | **Beghelli et al 2012 (district context)** | **SAFE 2011 - 2013** |
| 1 - Finance need | High | | | High |
| 2 - Bank willingness to lend & liquidity distribution | Negative | Negative | Negative | Negative |
| 2 - Own capital | Often | Often | Often | |
| 3 – Loans (over 25.000) | Often | Often | Often | Somewhat |
| 4 - Microfinance | Low | | | |
| 5 - Interest rates | High | High | High | High |
| 6 - Costs of credit | High | High | High | High |
| 7 - Factors affecting credit: | | | | |
| • Capital (guarantee) | Often | Often | Often | Somewhat |
| • Creditworthiness | Often | Often | Often | Somewhat |
| • Collateral | Often | Often | Often | Often |
| • Ratings | Often | | | |
| 8 - Application through: | Somewhat (high in the case of manufacturing) | Often | | |
| • Cooperatives | Often | Somewhat | | |
| | Low | | | |
| • Group/Big banks | | Somewhat (low due to high costs & not useful) | Somewhat (low due to high costs & not useful) | |
| • Local banks other than Cooperatives | | | | |
| • CONFIDI | | | | |
| | | | | Continue on next page |

| | | | | |
|---|---|---|---|---|
| 9 - CONFIDI<br>• Access to credit<br>• Interest rates<br>• Amount of credit<br>• Guarantees requested<br>• Costs/commissions<br>• Application costs | | Advantage<br>Advantage<br>No effect<br>No effect<br>No effect<br>High | Advantage<br>Advantage<br>No effect<br>No effect<br>No effect<br>No Effect | |
| 10- Microfinance application:<br>• Process application<br>• Guarantees<br>• Documentation required<br>• Cooperative banks | Positive<br>Positive<br>Positive<br>Often | | | |

Source: European Central Bank, 2011a; European Central Bank, 2011b; European Central Bank, 2012a; European Central Bank, 2013b; European Central Bank, 2012b; Beghelli et al., 2011; Beghelli et al., 2011, p.53 and Beghelli et al., 2012 Beghelli et al., 2012, p.47

#### 4.4.2.2 Effects on SMEs' access to credit

SMEs in the Venetian region, represent the main data. This is matched and contrasted with the survey conducted by the Emilia-Romagna. The Emilia-Romagna is considered a 'unique big multi-sectoral district' and, therefore, the most developed cluster/district within the Italian territory; it provides, therefore, a good source for comparative purposes. For completeness purposes, a comparison is also made of credit surveys from the European Central Bank's access to credit which provides accounts for the whole Italian territory. A complete desplay of interconnected elements to address underlined occurrences in SMEs' access to credit is presented in Figure 66.

Eight elements are identified. Results indicate a negative trend in the application of the cost of lending and interest rates. Access to credit through cooperative banks is generally positive although commercial banks appear to be generally favoured by SMEs. Microfinance type lending has a positive effect on process application, guarantees and documentation required. The use of CONFIDI can be generally viewed as a positive element, benefitting SMEs' access to credit as it

addresses access to credit and interest rates. However, it is recognised that the high costs of services adversely affect credit distribution activities. The results indicate that local lending, in a district context, does not assist SMEs in decreasing costs of credit or credit requirements like guarantees, ratings, documentation required on loans over £25,000.

**Figure 66: Impact of lending elements – data reduction based on magnitude coding (evaluative content)**

| Elements | Venetian Region (manufacturing sector analysis in the context of this study – from survey analysis (primary data)) | Elements from other surveys / studies (Emilia-Romagna Survey and European Central Bank survey SAFE) |
|---|---|---|
| Loans (level of application) | Positive | Positive |
| Microfinance (loan up to € 25,000) | Negative | |
| Access to credit (through cooperative banks) | Positive (second position) | Positive |
| Access to credit (through other local banks for comparative purposes) | Negative | Negative |
| Costs of credit | Negative | Negative |
| Interest rate | Negative | Negative |
| Factors affecting credit:<br>1 – Capital (guarantees)<br>2 – Creditworthiness<br>3 – Collateral<br>4 – Ratings | <br>Negative<br>Negative<br>Negative<br>Negative | <br>Negative<br>Negative<br>Negative |
| CONFIDI (MGI) | (not requested) | **Negative** – high costs of service<br>**Advantage** – interest rates<br>**Advantage** – accessing credit<br>**Neutral** – on amount of credit, for guarantees, for costs and services<br><br>**Generally reported as being viewed as a positive element** |
| **Negative and positive effects on SMEs' access to credit on a district system through local lending (example of cooperatives and MGI)** | | |
| **Positive Aspects** | | |
| * Access to credit<br>* Interest rates | Application through **CONFIDI (MGI)** | |
| Microfinance application:<br>• Process application<br>• Guarantees<br>• Documentation | Positive for SMEs' access to credit (loans below £25,000) | |

Continue on next page

| | |
|---|---|
| required | |
| Cooperative banks | Application often through this type of institution |
| **Negative Aspects** | |
| **1** - Cost linked to application through the **CONFIDI (MGI)**<br>2 - Capital (guarantees), creditworthiness, collateral, ratings remain a problem for loans over £25,000<br>3 - Microfinance – interest rates and costs high | |
| **Final Results** | |
| CONFINDI as MGI does not generally favour SMEs' applications for credit due to the additional costs that this entails. The request on forms of guarantee is not positively affected (neutral). However, SMEs can be positively affected by a reduced level of interest rates if CONFIDI is applied to loan requests. Furthermore, access credit is perceived as a positive element. | |
| Microfinance can be effective as a form of financing as it is reported to reduce the process application, guarantees and documentation required. | |
| Cooperative bank applications for loans are considered by SMEs in accessing credit. | |
| Local lending in a district context does not assist SMEs in decreasing costs of lending or credit requirements, nor guarantees, ratings, documentation required on loans over €25,000 | |

### 4.4.3 Causality results

This sub section's analytical results are based on the patterns and outcomes proposed by this section's questions and aim to provide an answer to the following questions:

***Q28: What is the most effective lending technology that can serve SMEs?***

***Q29: What is the lending technology that might best address actors' mutual satisfaction?***

Figure 67 portrays, through a causality analysis, the incidents and results related to an application of a relationship lending approach for SMEs' access to credit assessment.

A relationship lending approach result points towards a positive communication framework between actors. In this lending technology approach, banks, although alert to risk, direct their attention to growth promotion. This determines a positive communication pattern with repercussions on the relationship and consequently on building quality and value. Banks, in their evaluation process, consider soft type

information to account for SMEs' business prospects in the context of an industrial fabric and general economic perspectives. Banks point to a logical and methodical process for gathering information and to monitoring and assessing SMEs. Operators expertise is, therefore, a relevant factor. SMEs understand their limits and are inclined to be considerate and helpful in terms of banks needs to gather information. Results indicate that factors such as collateral levels, guarantees, ratings and rigour are a problem; however, the perception that a relationship lending type approach can improve loan success points towards addressing this issue. SMEs acknowledge that a relationship lending approach improves interest rate levels, costs of credit and terms and conditions. Furthermore, it positively influences services provided by banks.

A local lending application through the application of CONFIDI is generally viewed as positive for SMEs by improving access to credit and interest rate levels. Cooperative banks appear to a positive element in serving SMEs as the relationship lending pattern might be enhanced. At the same time, when microfinance, as for loans below £25,000, is applied for, it favours process application, guarantees and documentation requirements. The results point, therefore, to a conclusion that local lending can be positive in favouring SMEs' access to credit through a relationship lending approach. The elements of trust, quality and value are promoted through the application of this technology for lending.

**Figure 67: Relationship lending approach – causality analytical results**

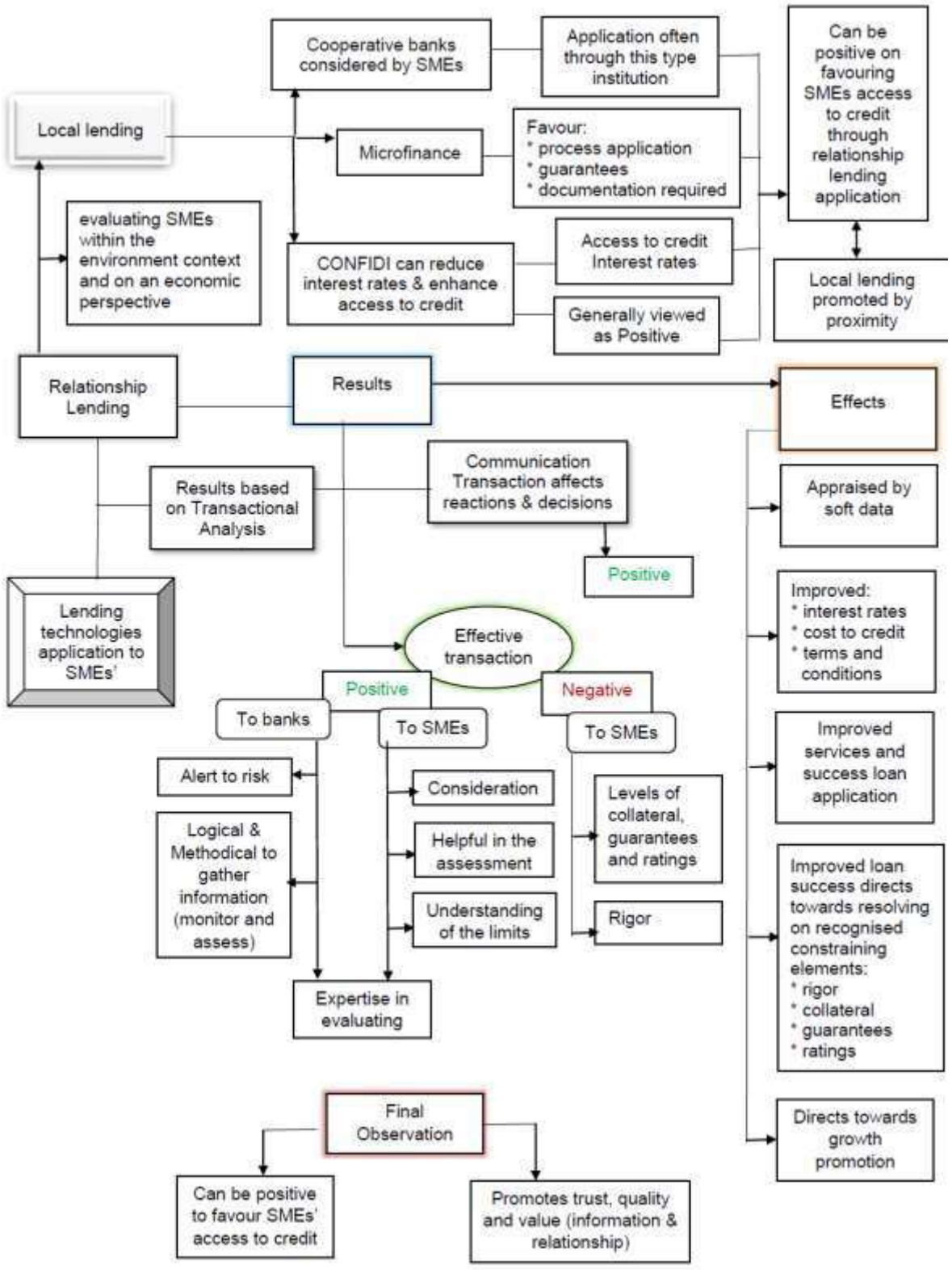
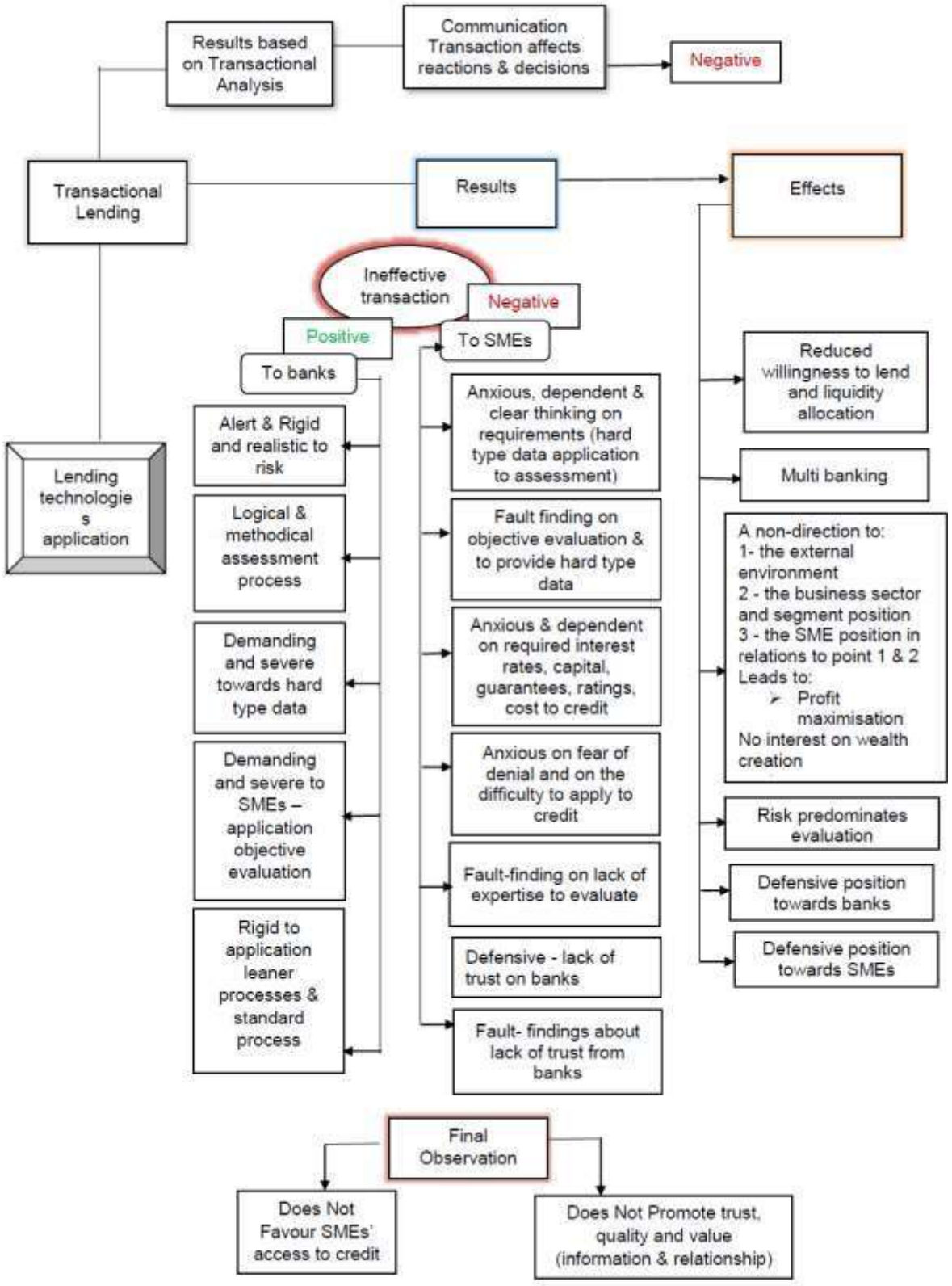



Figure 68 provides a representation, based on a causality analysis, of the incidents and results related to a transactional lending approach related to SMEs' access to credit assessment.

In a transactional lending approach, actors aim for different objectives and this determines a negative communication pattern with repercussions on the relationship and consequently for building quality and value. The banks' propensity to direct attention towards risk in the evaluation process does not account for other ingredients like SMEs' business prospects in the context of an industrial fabric and general economic perspectives. A risk propensity for assessing SMEs has a negative effect on the willingness to lend and the liquidity availability. SMEs perceive innovative firms, start-ups and micro businesses to be most affected by the banks orientation to risk and objective assessment for credit. Lack of trust in banks steers SMEs towards a defensive position where a multi banking strategy is favoured. A bank inclination to apply hard type data and an objective evaluation, where collaterals and guarantees are relevant to liquidity distribution, appears to be directed towards a strategy for profit maximisation and not towards SME wealth creation. Interest rate levels and cost of credit together with the rigour applied directs SMEs to perceive the application for credit to be difficult and the fear of denial is relevant. Furthermore, SMEs perceive the rigid assessment applied by banks as demonstrating a lack of trust by banks in firms. The end results indicate that this transactional lending application does not favour SMEs' access to credit. Communication is not engaging and the elements of trust, quality and value are not emerging.

**Figure 68: Transactional lending approach – causality analytical results**




By building on the Transactional Analytical results and based on the causality application in terms of occurrences and perceptions, the above results highlight

that the most effective lending technology which could serve SMEs is represented by a relationship lending approach in the assessment process.

Figure 69 provides a representation, based on a causality analysis, of the incidents and results based on the combination of a relationship lending and a transactional lending approach related to SMEs' access to credit assessment.

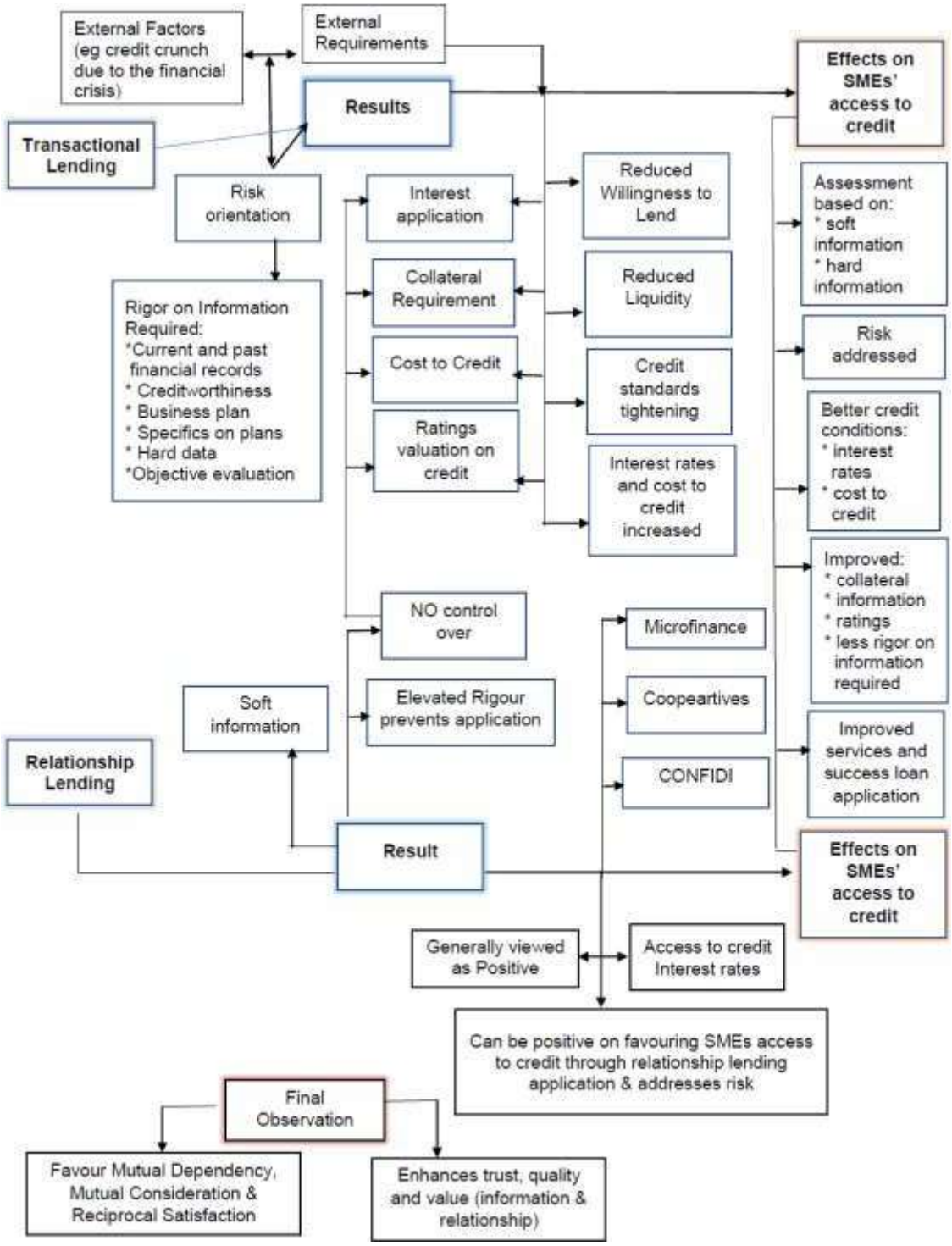
Mutual dependency contributes to reciprocal satisfaction which lead the end results. It is underlined that trust between parties is favoured by a positive communication pattern as mutual considerations may be developed (Moro et al., 2012).

The proposed analytical results based on causality provides evidence that actors' mutual satisfaction can be best addressed by a combination of the two lending technologies. In fact, a relationship lending approach applies soft data to the evaluation. This, in turn, can improve interest rates, cost of credit, terms and conditions applied to credit. It can improve services and the success of loan applications directed towards addressing rigour, collateral, guarantees and ratings. As the causality results indicate, local lending can be enhanced by a relationship lending approach. It should, however, be underlined, that from a bank perspective, risk remains an unresolved issue. Risk is relevant as evidenced by the application of a transactional lending approach and by the rigor and the credit tightening applied to credit assessment. Transactional lending does, in fact, gravitate around rigour, objective evaluation, leaner and standard processes, hard type data and methodical assessment. Whilst risk is addressed, the results indicate SMEs take a defensive position in terms of the banks' strategy. Multiple banking is applied as interaction and collaboration are not feasible. SMEs' lack of trust in banks is enhanced.

In the light of the above results and considerations, a combination of the two lending technologies can better assist in benefitting SMEs in accessing credit and simultaneously can assist in addressing the risk factor. SMEs can be served by a subjective evaluation as operators are competent in assessing firms within the economic context. At the same time, banks can apply, in combination with soft data, hard information for the assessment. This can address the risk element but,

at the same time, mitigate SMEs' constraints. The conclusion is that the combination of the two lending technologies can favour reciprocal satisfaction due to mutual dependency and consideration. SMEs can be more effectively served by a combination of the two lending technologies in accessing credit as the risk problem, which affects liquidity distribution and willingness to lend, can be addressed. Furthermore, mutual trust can be enhanced for a reinforcement of value and quality elements to strengthen both information and relationship aspects.

**Figure 69: Causality analytical results based on a combination of a relationship lending and a transactional lending approach**



## 4.5 Chapter summary

The aim of this study is to investigate the elements which affect SMEs' access to credit.

Looking at the reported evidence, negative trends in access to credit might impair businesses' innovation and economic growth especially in the case of micro firms, start-ups and innovative businesses. Results indicate that costs and interest applications have a negative impact on lending. Banks tighten credit standards for SMEs and their availability and willingness to lend is impaired by the risk element and capital requirements. SMEs' access to finance is, therefore, identified as a problem. All sectors and segments are affected with a general propensity on innovative firms, micro businesses and start-ups.

Findings are consistent, indicating that credit for SMEs is an important source of liquidity for business activity. Banks' liquidity allocation, willingness to lend and approaches to lending are dependent on the risk factor. This element has a negative effect on lending availability and tightening of credit standards. Furthermore, it has a negative influence on rigour towards credit assessment and on the application of approaches to lending. Risk in assessment of applications' therefore negatively affects lending. In most cases, SMEs indicate a high number of relationships with institutions translating into a multiple banking strategy. The PAC portrays an effective communication pattern between actors when a relationship lending approach is applied. It is reported that a relationship lending application for lending leads to better conditions for lending type activities and the success of credit applications. Local lending through a relationship lending approach can be positive for SMEs' access to credit. Cooperative banks, as local banking institutions, are considered by SMEs when applying for loans. There is very little use for microfinance type lending. However, when applied for, most businesses found the process and requests over guarantees and information to be positive. The analytical results based on causality indicate relationship lending to be the effective approach to serve SMEs. However, results show that a combination of the two lending technologies represented by relationship lending and transactional lending can be positive for actors' reciprocal satisfaction and therefore most effective in serving SMEs.

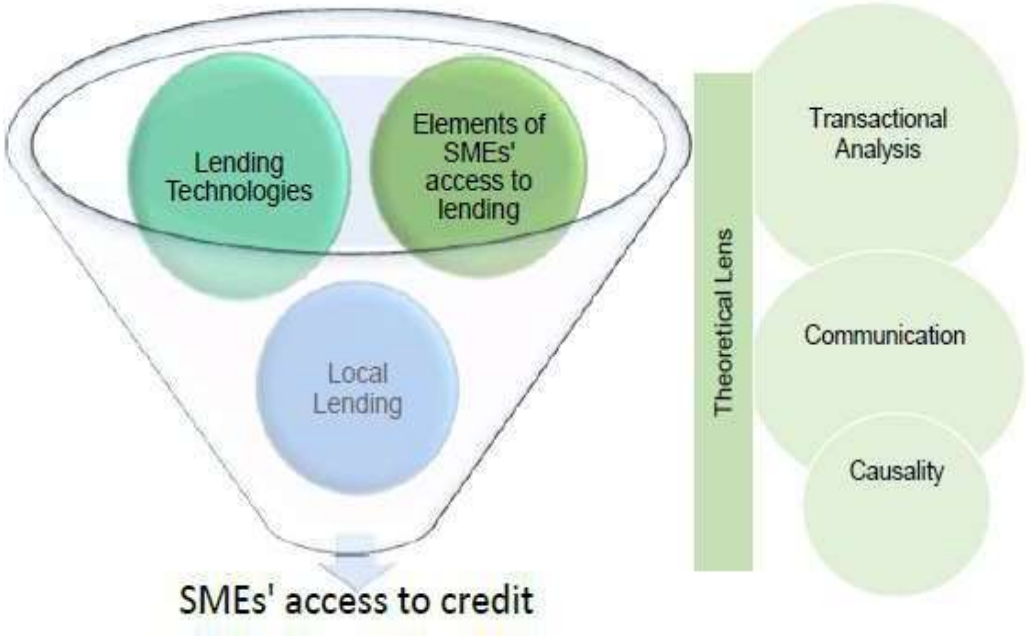
One element which surfaced is the absence of knowledge on the type of financing promoted by the European Union for credit type loans application. In fact, SMEs are, in most cases, not aware of these type of lending facilities or, when they are aware, they are not informed about how to access these services.

The next chapter presents a discussion on the topic in this light by comparing and contrasting empirical results to review extant research. It furthermore presents proposed possible solutions to contribute to policy.

# Chapter 5: Discussion

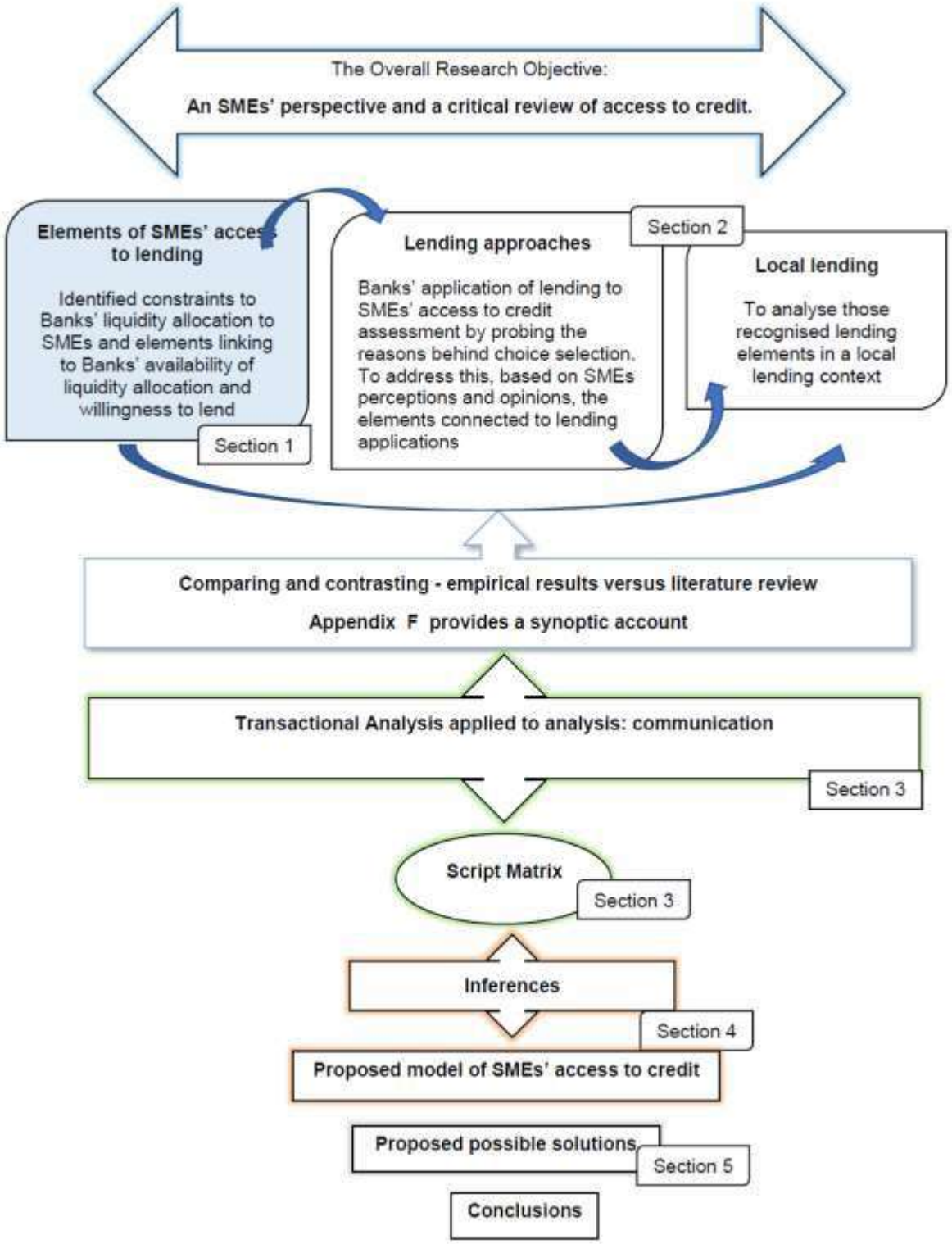
The objective of this chapter is to discuss the analytical results in the light of the considered extant research as reviewed in Chapter Two. The discussion, therefore, provides an interpretation highlighting contribution to theory and practice. The topic of SMEs' access to credit is explored through different lenses, as best illustrated in Figure 70 to probe elements of access to credit related to SMEs as illustrated by the conceptual framework delineated in Chapter Two and to address the research objectives.

**Figure 70: The research focus**




Synoptic elements and inferences to draw on the main elements are proposed in the next sections. To best underline the interrelationship between elements, this chapter's structure is outlined and presented in Figure 71.

**Figure 71: Chapter structure**



## 5.1 Elements of SMEs' access to lending

In the light of the importance of lending for SMEs' growth and development, the aim was to focus on those aspects that might constrain banks' liquidity allocation. The literature provides a clear representation of the exposed aspects which have a negative impact on liquidity allocation to SMEs. There is a clear indication that SMEs' access to finance is cyclical, principally due to economic changes and regulations which adversely affect banks' credit standards. The ability of businesses to borrow influences the business cycle, where the interlinking aspects of lending-type activities and risk have an effect on business decisions to develop and grow (see Ruis et al., 2009).

As the literature indicates, financing assumes high relevance in the context of SMEs' lifecycles and their potential to innovate and grow (see Ruis et al., 2009). Banks' provision of funds to SMEs is one of the most significant elements of financial constraint affecting small firms' growth. Financial constraints, in fact, represent an entry barrier and an obstacle to innovation and development, having an impact on firms' ability to produce, generate profits and grow (see Beck et al., 2005; Beck and Demirguc-Kunt, 2006; Ayyagari et al., 2008; Beck et al., 2005, p.138; Deakins et al., 2008; European Banking Authority, 2016 and Kuntchev et al., 2013).

Drawing on the literature debate, evidence suggests a correlation between SMEs' access to finance and growth and innovation. A business' age, size and sector are mostly affected by constraints and liquidity allocation. In fact, young, new market entrants and manufacturing business are reported to be constrained in accessing loan credit through banks (see Deakins et al., 2008; Coluzzi et al., 2009; Deakins et al., 2008; Ferrando and Griesshaber, 2011; Arraiz et al., 2014; Kuntchev et al., 2013; Atzeni and Piga, 2007 cited in Cenni et al., 2015; Lee et al., 2015 and Pellegrina et al., 2017).

As specified, bank lending is recognised as a relevant element in businesses' innovation and growth. Indeed, the harmonisation and process standardisation enacted by the European Union through the 'principle of debt and equity platforms' are indicated as contributing ingredients to enhance lending (European Commision, 2011d). However, within this context, a gap

can be identified as the evidence indicates that SMEs are rarely aware of the existence of these facilities.

Empirical results confirm that, although all SMEs are negatively affected by liquidity paucity and willingness to lend deficiencies, start-ups, innovative and micro firms are typically more adversely influenced by liquidity distribution than others SMEs. The study contrasts with the existing literature (Lee et al., 2015 and Pellegrina et al., 2017) demonstrating how innovative firms face difficulties in terms of credit demand fundamentally at the same level as non-innovative businesses.

In line with Ruis et al. (2009), the analysis indicates that the financial crisis leads to a credit crunch. However, the research, building on their studies, indicates that also external requirements imposed by the European Banking Authority (EBA) and the Basel III on risk and capital are a factor in liquidity distribution exacerbate SMEs' access to credit.

The scenario that the empirical results present is a difficulty for smaller and medium-sized businesses wishing to access finance due to banks' preconditions. These conditions are ascribable to collaterals, guarantees and ratings. Banks require further information on loan applications to address creditworthiness aspects. These are characterised by past and present financial records, past financial reliability, business plans and specifics on plans related to the required loan. Moreover, rigour applied by banks to the evaluation process is recognised as excessive. Rigour, in fact, is applied to information requirements over detailed past financial records, detailed current financial records, future financial planning and information on the strategy for the business. It emerges as a condition in a market power hypothesis orientation to loan distribution concurring with the theory advanced by Ryan et al. (2014). A market power hypothesis is ineffective for SME lending having a negative effect on constraints like collaterals and interest rates (Ryan et al., 2014 and Carbò-Valverde et al., 2006). Moreover, the market power position is heightened and liquidity distribution exacerbated (Ryan et al., 2014). Uchida et al. (2012 cited in Bonini et al., 2016) indicate that elements like solvency and collateral are relevant in determining the bargaining power which can affect the negotiation process between SMEs and banks. Empirical results highlight a situation whereby SMEs are negatively affected by high interest rates, cost of credit and excessive

collateral and guarantee requirements as banks enact a strategy of credit standard tightening to address risk in the credit assessment. Collaterals and guarantees required are often excessive if compared to the credit required and partially in line with Lee at al.'s (2015) study, which demonstrates that the evaluation of intangible assets and future profits are, at times, difficult to assess. Guarantees, collaterals and ratings are recognised as constraints which gravely affect SMEs (Ruis et al., 2009; Organisation for Economic Cooperation and Development, 2006) and exacerbate liquidity distribution and willingness to lend. These elements, added to the level of interest levels, and cost of credit lead to a difficulty in credit application and to the fear that a credit application will be denied.

The literature highlights that collateral requirements can ease the adverse selection which arises from information asymmetry as SMEs are opaque and, therefore, at a disadvantage in providing hard type data and market ratings (European Banking Authority, 2016; Berger et al., 2009; Mac an Baird et al., 2016; Bass and Schrooten, 2006; Beck and Demirguc-Kunt, 2006; Berger and Udell, 1998 and Kirschenmann, 2016). Empirical results lead to the assumption that an adverse selection is occurring. SMEs consider the rigour and the credit standard tightening as a lack of trust from banks (see Wang, 2016). This negatively influences SMEs' confidence in banking institutions. Banks are not considered to be orientated towards contributing to SMEs' innovation and to value adding. The situation is aggravated by the application of hard type data in SME evaluation through bank orientation which is ineffective for serving SMEs. The effects are a decrease in the number of SMEs, leading to a deterioration in employment levels and in their contribution in value added terms.

The study leads to the inference that a financing gap prevails. This is assumed by the relevance of loans towards financing innovation and working capital activities followed by a need for finance not met by liquidity distribution which is characterised by an unwillingness to lend. The findings are in line with Deakins et al.'s (2008) study. The financing gap or debt finance gap underlines inadequate financial provision spurring from 'banks' lending availability' to influence the 'SMEs' lifecycle' in terms of businesses' innovation, development, investment and growth (Deakins et al., 2008).

In conclusion, the research indicates that SMEs' access to credit is a critical issue, where different elements are recognised as interrelating factors

contributing to credit tightening and banks' unwillingness to lend. The indicated elements and interrelated aspects are fully displayed by a longitudinal analysis results as a second cycle methodology to consider results and extant research, shown in Figures 72 and 73.

**Figure 72: Influencing and affecting elements of SMEs' access to credit**

**Synopsis on elements of SMEs' access to lending based on the application of Longitudinal Analysis** - Second Cycle Coding Method (Saldana J.) adapted

| INCREASE/ EMERGE | CUMULATIVE | SURGE/EPIPHANIE/ TURNING POINT | DECREASE/ CEASE | CONSTANT/ CONSISTENT | IDIOSYN CRATIC | MISSING |
|---|---|---|---|---|---|---|
| *Interest rates<br>*Cost /Risk to lending | *No. SMEs Employment<br>*Value Added<br>*Access to Finance<br>*Finance development | *Financial Crises<br>*Basel III & EBA Risk-Capital Requirements | *Willingness to lend<br>*Lending availability<br>*Credit standards tightening | *Loan Needs<br>*Rigours to lending assessment | n/a | n/a |

**CONTEXTUAL/INTERVENING CONDITIONS INFLUENCING/AFFECTING CHANGES ABOVE**

**1** - Financial Crises (Credit Crunch)
**2** - Basel III & EBA towards Capital and Risk

- Banks' **credit Standards to loans** - tightened
- Banks' **loan availability** – worsening
- Banks' **loan willingness** – deteriorated
- **Interest rates** propensity to increases
- **Cost to lending** propensity to increases

**Elements affecting loans access**

**Opacity & Asymmetry** of information hinder lending

**1) Poor credit rating** (Emerging)

**2) Insufficient Collateral** (Emerging)

**3) Risk** (Emerging)

**4) Lack of capital** (Emerging)

*Perceptions on SMEs' **1)** Bank's willingness to lend - Deteriorated
**2)** Banks' availability to lend – Worsened

*SMEs **loan needs increased**

*SMEs **access to finance** identified as a problem /rigours to assessment

*Small Business Act - 'Access to Finance' towards –Deterioration/Low Performance

***Number of SMEs** – Deteriorated

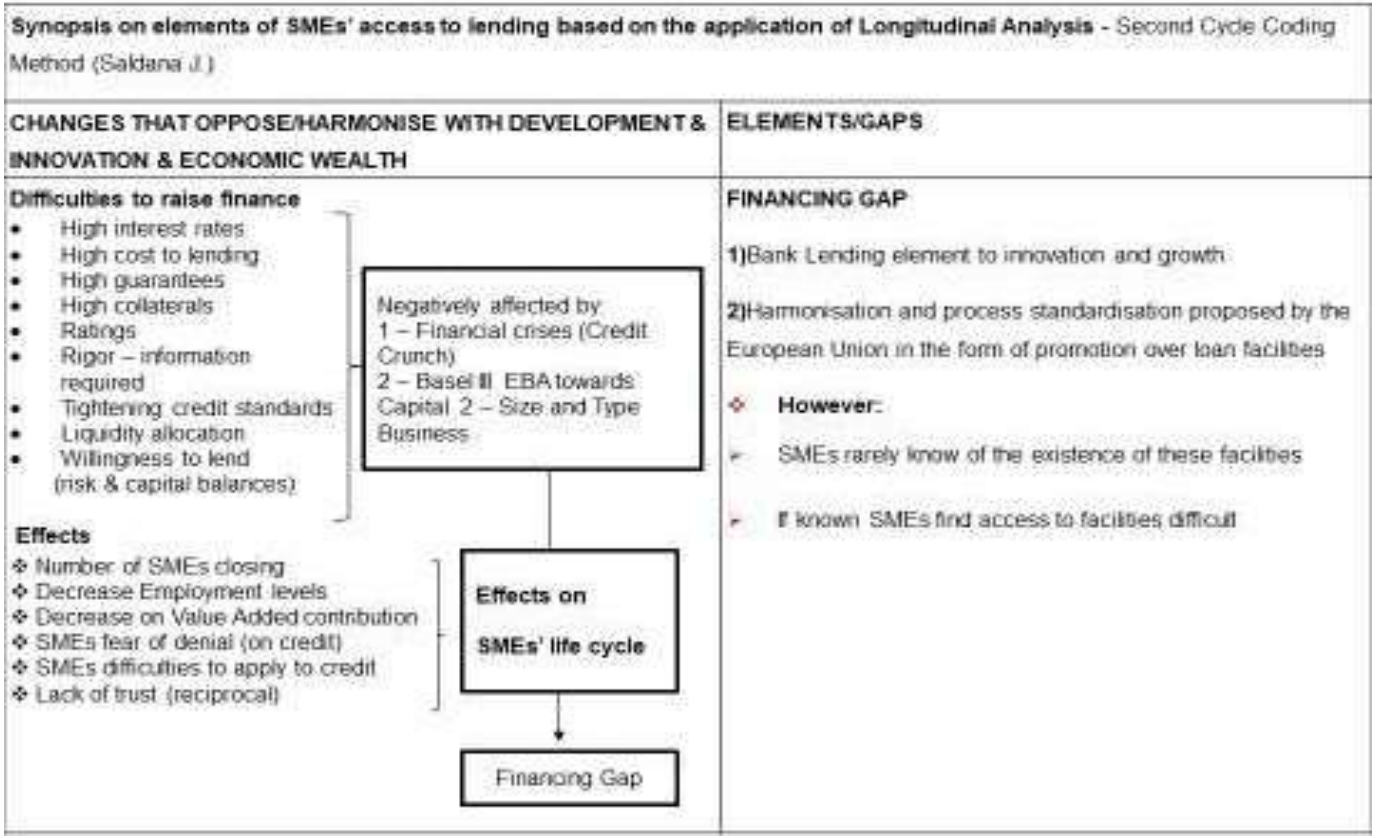
***Employment** (SMEs) – Deteriorated

*SMEs **value added** – Deteriorate

*Interest rates – Deteriorated

*Success rate to obtain a loan – Deteriorated

**Figure 73: Effects on innovation and wealth and possible gaps**



## 5.2 Lending approaches

In the light of findings relating to those uncovered and recognised elements which hinder SMEs' credit access, such as banks' availability in liquidity allocation and willingness to lend, credit tightening and costs of credit, the research analysis further develops by focusing on banks' application of approaches to lending and SME credit assessment processes. This is achieved by drawing on multiple data sources, extant research and literature. The aim was to highlight consistencies and discrepancies within credit activities. Italy, where the research survey predominates, represents the principal case study. For completeness and validity purposes, a comparative study was applied to uncover influencing factors relating to the application of lending technologies to offer different perspectives.

Empirical results, in line with the extant literature (Petersen, 2004; Bongini et al., 2009 and Udell, 2008), identify two types of approaches to lending: relationship lending and transactional approaches where SMEs are assessed on the basis of soft or hard type information. The application of soft or qualitative data is based on a subjective assessment (Dabrassi Prandi, 2006; Boot, 2000 and Lewicki and Bunker, 1996 cited in Moro et al., 2012) whilst a hard or quantitative data evaluation is objective in nature, applied to a one-off assessment and considered a standard and leaner process (Dabrassi Prandi, 2006 and Petersen, 2004).

The analysis has revealed a different world of lending options within the European Union zone, where approaches to credit activities and strategies, in the context of SMEs, are not aligned. The evidence suggests that an approach to lending, based on a bank-based system directed towards a relationship lending approach, may be the most effective in creating an environment where businesses can benefit from an evaluation strategy based on monitoring. Moreover, operators' expertise in the evaluation considers a combination of different factors like the external environment, the business fabric and the firm's exogenous elements and their interrelation. Therefore, in line with the literature (Berger and Udell, 2002; Ongena and Smith, 2001; Petersen, 2004; Elsas, 2005 and Petersen and Rajan, 2002), the results indicate that a relationship lending approach is applied by banks which are principally orientated towards development and growth rather than profit

maximisation as occurs for a transactional lending approach application to SMEs' access to credit.

The element surfacing from the research is the difficulty of accessing credit due to banks exercising rigour over information requirements and a creditworthiness orientation to lending assessment through rankings and ratings methods, collaterals and guarantees. Guarantees of either a personal nature, through own capital or through business funds, are recognised as an element required by banks to assess credit distribution. Collaterals and ratings are considered elements which adversely affect credit. Results indicate that SMEs are, in some cases, required to provide capital equal to or more than the amount of credit being requested. Cost of credit and interest rate levels are recognised as excessive by SMEs, representing an additional constraint to lending. SMEs indicate costs as having a negative impact on their financial results. An important finding was the application of a transactional application to Italian's SMEs evaluation. Empirical results, in fact, contradict with external sources of data which highlight that, in Italy, a system to combine soft and hard information in the assessment process operates. Whether this conclusion might be the effect of the financial crisis is not ascertainable by the obtained results but the results clearly underline a quantitative application in SMEs' assessment. Furthermore, it should be underlined that SMEs often avail themselves of multiple banking. This is a relevant finding contrasting with the considered extant research which indicates that a multi banking strategy relates to a relationship lending application as firms wish to avoid the hold-up problem (Rajan, 1992; Detragianche et al., 2000; Boot, 2002; Ongena and Smith, 2001 and Angelini et al.,1998 cited Castelli et al., 2009). In fact, to reiterate, empirical results highlight an application by Italian SMEs of a transactional lending technology. A multiple relationship strategy can lead to credit rationing (Cenni et al., 2015) and to higher costs of credit (Rajan, 1992 and Bonini et al., 2016).

Risk is recognised as a negative element and affects banks' requirements and the application of rigour in terms of the information required. The repercussion in terms of SMEs' access to credit is critical due to the restrictions on credit assessment, on allocation and on the limits of distribution. The element that surfaces is the opacity element (see Roberts, 2015 and Detragianche et al., 2000) as SMEs find the requests advanced by banking institutions too rigorous. To

reiterate, these are represented by current and past financial records, past creditworthiness, business plans and specifics for plans and explanations related to credit applications. SMEs' ratings are also indicated to be a problem. The extant research indicates that interest rates are affected by information quality (Baas and Schrooten, 2006). The rigour applied by banks over information requirements and the high interest applications is a suggestion that information quality might be an issue.

The literature proposes two explanations specifically; information 'asymmetry' is positively affected by the application of a qualitative information technology approach typical of relationship lending (Bongini et al., 2009; Galloui, 1997; Comeig et al., 2015 and Kirschenmann, 2016) and collateral can mitigate the issue of information asymmetry and adverse selection (Bester 1987 in Ono and Uesugi, 2009 and Jiminèz and Saurina, 2004). In this respect, interesting elements stem from SMEs' observations and empirical results. A relationship lending application is considered positive for success in loan applications (Jiménez and Saurina, 2004; Petersen; Rajan, 2002; European Banking Authority, 2016; Berger et al., 2009 and de la Torre et al., 2010). A positive effect on the improved success of loan applications assumes an effective flow of information between actors reducing the effects of information asymmetry (Bongini et al., 2009; Cotugno et al., 2013; Bartoli et al., 2013; Kirchenmann, 2016 and Udell, 2002). Furthermore, the perception about banks' levels of approval for loans applications infers a positive direction in the resolution of limits represented by the application of rigour, collaterals, guarantees and ratings. The application of banks' rigour in terms of information to assess SMEs indicates an application of hard type data underlining the problem of information asymmetry. The element of asymmetry is recognised as a constraining aspect as banks obtain hard data on clients to assess credit and apply collateral, guarantees and ratings to overcome risk. The aspect of information asymmetry and a consequential lack of knowledge of business plans and their positions, leads to the adverse selection (Roberts, 2015 and Detragiache et al., 2000). The results contradict with Milani (2014) idea that the application of hard data can attenuate the emerging effects of adverse selection. The issue of information 'asymmetry' may be regarded as relevant in hampering access to capital (European Commission, 2007 and European Commission, 2011d).

SMEs consider a relationship lending application in the assessment process as positive not only in terms of the success of the loan application but also in terms of interest levels, cost of credit, terms and conditions and the choice of services provided. Onu and Uesugi (2009) highlight that, in relationship lending, SMEs are more likely to commit collateral. Results contrast with this conclusion as the survey's participants indicate that SMEs are not keen to commit collateral out of context of the lending technologies application. Whether the risk factor scarcely affects the collateral requirement is not possible to ascertain. However, the inclination deriving from an integrated review is that risk is mitigated by the monitoring activity, typical of a relationship lending approach, where operators exercise their expertise in the evaluation process to merge different soft information like exogenous business elements to endogenous aspects (Presbitero and Zazzaro, 2011; Dabrassi Prandi, 2006; Bongini et al., 2009; de la Torre et al., 2010; Berger and Black, 2011; Elsas and Krahnen, 1998; Angelini et al.,1998 and Jiménez and Saurina, 2004). Discretion is exercised over credit assessment. Subjectivity is relevant to mitigate the opacity element and to reduce adverse selection as banks are able, by exercising flexibility, to apply discretion in decisions on access to credit (Roberts, 2015; Bongini et al., 2009; Berger and Udell, 1995; Detragianche et al., 2000; European Banking Authority, 2016; Kysucky and Norden, 2014; Cenni et al., 2015; Kirschenmann, 2016 and Milani, 2014). SMEs clearly display a favorable opinion of operators' expertise and knowledge of the business and the environment in the assessment process.

The literature provides different perspectives on the application of collateral interest rates and costs of credit in a relationship lending context. Jimémez and Saurina (2004) indicate that, in a relationship lending context, high levels of interest and low collateral are applied to riskier SMEs whilst a reduction in interest rate levels and collateral provision are endorsed in the case of lower risk firms. The literature further underlines that collateral may reduce interest rate levels and it is considered a way to monitor firms (Comeig et al., 2005 and Behr et al., 2011). Another view is that high risk borrowers affect interest rate levels and cost of credit (Fredriksson and Moro, 2014) and collateral is required only for riskier borrowers (Boot et al., 1991 and Berger and Udell, 1990). From the research, analytical results emerge that, for a relationship lending application in SMEs' access to credit, the perception is that benefits can arise for collateral and guarantee

requirements and for interest rate levels despite firms' nature and riskiness. The extant research considers a multiple banking strategy to be a consequence of collateral requirements (Berger and Udell, 1995 and H arhoff and Korting, 1998) and of high costs of credit (Rajan, 1992 and Bonini et al., 2016). Participants highlight a different picture whereby, indeed, collateral and costs of credit contribute to a multiple banking choice but these are concurrent with interest rates, ratings and application of rigour for information required recognised as a limiting factor in loan application and success.

### 5.2.1 Local lending

This research has attempted to assess the effects that local banking might have on SMEs' access to credit. The research focused on Italy as the critical case study, most representative in terms of SMEs' presence and contributions.

The Italian system is highly characterised by industrial districts or clustering, through vertical and horizontal interconnecting activities within the external value chain, which favour synergies within the local or regional settings. As best exemplified by this research, the rationale behind the choice of country not only rested on SMEs' representation and districts' relevance but also on a well-established cooperative banking system to account for 50% of total bank branches and the fact that 48% of SMEs apply through these types of institutions (see Euricse, 2011). The financial system is also characterised by the presence of CONFIDI as mutual loan guarantee societies (MGI), acting as intermediaries between SMEs and institutions in the credit assessment process.

Local lending is recognised as effective in creating synergies (see Reuttner and Glass, 2011; Everett et al., 2010; DTI, 2002; Porter, 1990; Solvell, 2008; Lindqvist et al., 2013 and Boja, 2011) and in promoting regional innovation and development (Becattini et al., 2009 and DTI, 2002). It can favour 'cluster development' as financial institutions' proximity to SMEs can support relationships and cooperation building to enhance lending activities (DTI, 2002 and Becattini et al., 2009).

The research underlines that SMEs consider access to credit both inadequate and costly (see Beghelli et al., 2011 and Beghelli et al., 2012). The inference has a negative effect on businesses' ability to survive. The evidence suggested a high number of closures and defaults (Cerved Group, 2013 and ilSole24ore, 2013). Furthermore, a decrease in SME applications to the CONFIDI is ascribable to the cost element linked to the service provided and to 'not considering strategic the role of such entities' (Beghelli et al., 2011, p.50). To reiterate, the research analytical results indicate a negative trend for accessing credit, willingness to lend, finance needs, liquidity distribution and constraints to credit. In terms of recognised constraints to credit, the analytical results underline different elements. These are the cost of credit, the application of interest rates, guarantees requested, amount of credit, the types of institution applied to – either cooperative institutions or banks – and microfinance. Changes in manufacturing patterns, as evidenced by the high level of business cessations, are ascribable to financial shortages.

The indication of a general negative trend in the application of interest rates, guarantees, cost of credit and microfinance-type lending application points towards local lending as ineffective in serving SMEs. A more in-depth analysis, however, indicates that operations through a CONFIDI as MGI have a positive effect on access to credit and interest rates. Indeed, a CONFIDI application demands additional costs which SMEs consider excessive. Nonetheless SMEs, in line with the literature, consider the CONFIDI as generally positive in favouring access to credit (Mistrulli et al., 2011; Camera di Commercio Artigianato Agricoltura di Torino, 2010; Bartoli et al., 2013b and Columba et al., 2010). Cooperative banks as local lending institutions are considered by SMEs in the application for credit.

The evidence indicates that SMEs scarcely apply for microfinance mainly due to loan requirements over the set amount of €25,000 or because the firm has never applied for a loan. In some cases, microfinance is not considered when requesting a loan. When microfinance is applied for, cooperative banks are considered. A gap is here identified as this kind of financing would be best proposed by local types of institutions such as cooperative banks. Contextually, this type of lending is promoted by the European Union through the COSME

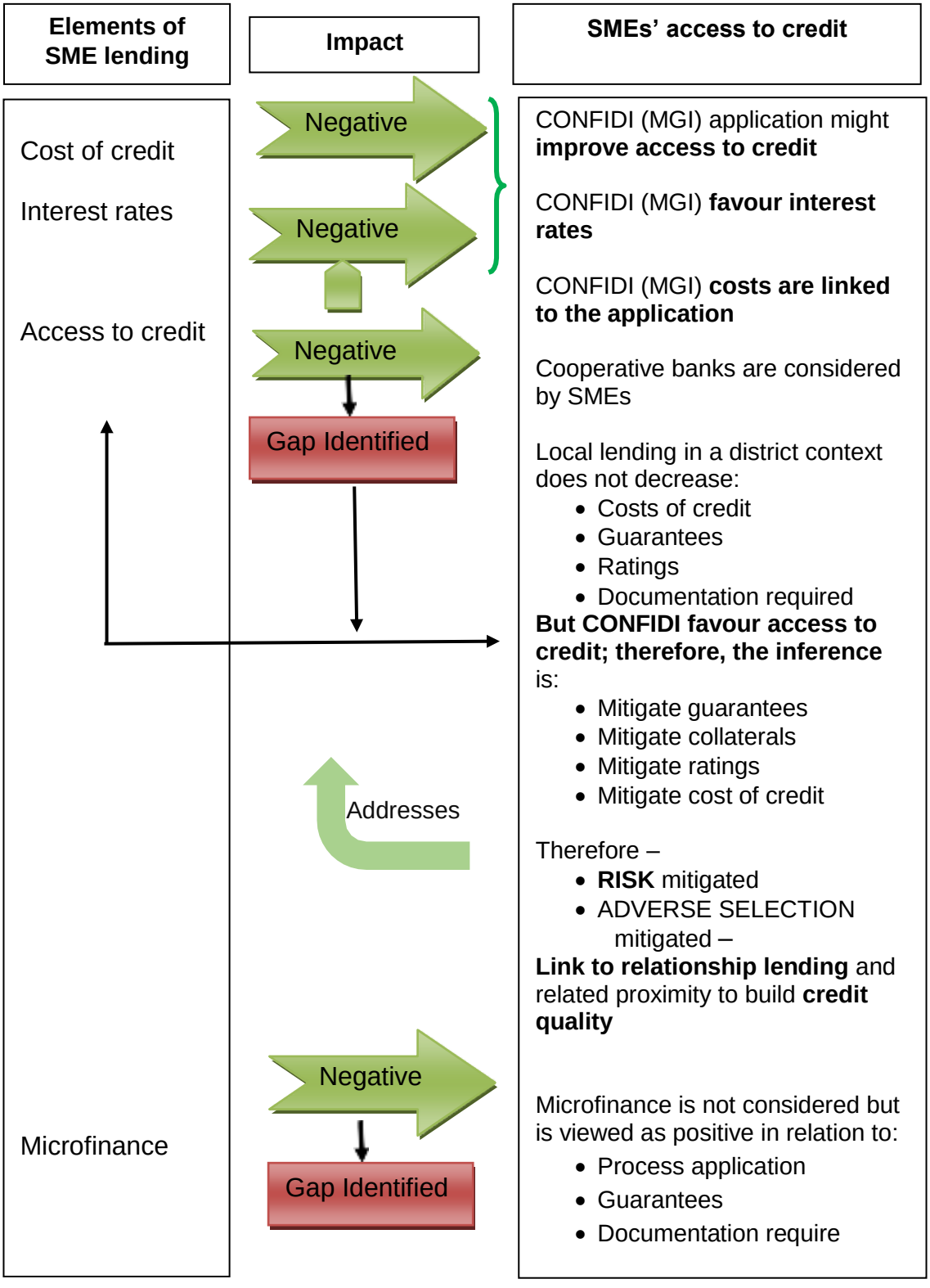
programme. However, businesses are scarcely aware of this type of resource. Local lending can be positive in promoting this type of lending activity.

The literature indicates that a local lending strategy can address the cost of credit and interest rates by mitigating their impact on SMEs (Hasan et al., 2017; Berger et al., 2015 and Hakenes et al., 2014). Empirical results, to a certain extent, do agree with this aspect as application through a CONFIDI could be positive for accessing credit and for interest rates. The inference that can be drawn is that, if the application through a CONFIDI is considered advantageous for accessing credit, it could be said that banks' rigour, guarantees, collaterals and ratings may be considered less problematic. Furthermore, when microfinance is chosen as a loan option, the application process, the rigour in terms of demanded documents and guarantees required are mitigated. Within this context, cooperative banks, due to their proximity to SMEs, are indicated by the literature as effective institutions for local lending (Hasan et al., 2017; Berger et al., 2015 and Hakenes et al., 2014). Indeed, in this respect, SMEs' applications for loans through cooperative banks might imply that firms generally consider local lending a positive aspect. This is further underlined by SMEs' indication that local institutions are nearer to business. Results, however, also agree with Berger et al.'s (2008) findings which indicate that SMEs' as opaque firms do not necessarily choose local or cooperative banks as their principal institution.

In line with the literature review, results indicate that local lending aggregated to a relationship lending approach can assist in enhancing local synergies to support SMEs' access to credit by favouring efficacious assessment processes through the application of qualitative type data to build an effective relationship (Agarwal and Hauswald, 2010; Cotugno et al., 2013; Duarte, 2017 and Stein, 2002). This can be attributable to a 'strategic theory of relationship lending' (Presbitero and Zazzaro, 2011, p.410) which reduces opacity and asymmetry of information (Becattini et al., 2009; Stein, 2002; Bongini et al., 2009; Boot, 2000, Berger and Udell, 2002; Petersen and Rajan, 2002; Angelini et al.,1998 and Ughetto, 2006 cited in Giannetti, 2012) and, therefore, minimises the risk factor (Becattini et al., 2009; Berger and Udell, 2002; Boot, 2000; Angelini et al.,1998; Alessandrini et al., 2009 and Cotugno et al., 2013). Indeed, it is highlighted that credit quality can be positively affected by proximity (Mytelka and Farinelli, 2000; Milani, 2014;

DeYoung et al., 2008; Agarwal and Hauswald, 2007 cited in Milani, 2014 and Alessandrini et al., 2009) and that distance can enhance adverse selection (Milani, 2014). A synopsis to present key findings is offered in Figure 74.

**Figure 74: Synopsis: key elements and inferences**



## 5.3 Transactional Analysis and causality

To address the research gaps, Transactional Analysis theory was considered relevant in determining communication patterns and ascertaining its effectiveness as influencing factors in generating effects and results. Transactional Analysis theory can allow us to view the phenomenon through a different lens and to provide a critical viewpoint (Molesworth et al., 2017).

Quality can be assumed by the notion of communication effectiveness determined by responses, actions or perceptions of the reality (Mountain and Davidson, 2015). Value is representative of quality of information, prerequisites and conditions required (eg. Baas and Schrooten, 2006; Jiménez and Saurina, 2004). Causality to link influencing factors arising from results and the effects on SMEs' access to credit was, therefore, found appropriate to delineate the phenomenon.

The PAC model was applied to understand actors' considerations over the phenomenological realities. The analysis has disclosed two different positions over lending technologies. A relationship lending approach to the lending assessment was considered positive for serving SMEs. In contrast, the representation of a transactional lending approach was considered ineffective to serve SMEs but positive in addressing risk. The causality analysis was applied by analysing the combination of the PAC analytical results and the explored elements of lending approaches and local lending as exposed in the previous sections of this chapter. This addressed the second gap and answered two proposed questions: '***What is the most effective lending technology that can serve SMEs?*** and ***What is the lending technology that best addresses actors' mutual satisfaction?'***

With regard to the first question, the results confirmed the PAC outcome specifically, in that a relationship lending approach was most effective in serving SMEs. In fact, firms are appraised by soft data based on expertise in evaluation which addresses the asymmetry element and the adverse selection ascribable to the opacity element whereby ratings and hard data provisions are difficult. This affects all SMEs, in particular start-ups, innovative and micro firms. The effects are positive in addressing lending limits ascribable to rigour over information requirements and the application of excessive collaterals, guarantees, interest

rates and cost of credit. Moreover, a relationship lending orientation for SMEs' access to credit can improve services and the success of loan applications. Relationship lending in a local lending context is enhanced by proximity. Banks are orientated towards growth promotion. Trust assumes relevance and quality and value are embedded elements of this lending technology approach to lending. (see Heide and John,1992 cited in Yang et al, 2016; Berne, 2016b; Harris and Harris, 1995; Mountain Associates, no date; Mountain and Davidson, 2015; Moro et al, 2012; Hernandez-Cànovas; Martinez-Solano, 2010; Jimènez and Saurina, 2004 and Voordeckers and Steijvers, 2006)

A comparative analysis based on causality between the two lending technologies, as illustrated by the empirical results chapter, however, highlights that it is the combination of the two lending technologies which can address actors' mutual considerations. The review of the literature considers mutual consideration in the context of a relationship lending approach (Moro et al., 2012).

Mutual dependency contributes to reciprocal satisfaction. Moreover, trust between parties is favoured by a positive communication pattern (Moro et al., 2012). A combination of both lending technologies can address SMEs' constraints and banks' risk and compliances. Information quality and trust are rooted in the relationship lending approach. A simultaneous application of transactional lending can create fertile ground through effective communication to enhance information quality by addressing asymmetry (Heide and John, 1992 cited in Yang et al., 2016) and strengthening the relationship quality and trust between actors as value is generated (Baas and Schrooten, 2006; Moro et al., 2015; Fredriksson and Moro, 2014; Bester 1987 in Ono and Uesugi, 2009; Jimènez and Saurina, 2004 and Voordeckers and Steijvers, 2006). The communication value associated with information quality and conditions regulates the state of events (Retap et al., 2016; Sharma and Patterson, 1999; Vos, 2009 and Gronroos, 2014).

Value and quality notions dominate the concept of customer relationship management (CRM). Data sharing is, in fact, considered relevant to maximise the value of decisions as they determine the course of action (eg Payne, 2005 and Yang and Yang, 2010). A synopsis on customer value and information management elements, associated with SMEs and banking institutions, is drawn and illustrated in Figure 75. The deterministic elements of a long-term correlation

enhance different factors. These identified elements are opacity, asymmetry, customer retention, profits due to performance, banks' cost of lending, SMEs' cost of credit, risk and customer acquisition. These attributes can be effectively addressed by an orientation to customer value and information management. Knowledge of clients and the environment based on the aggregation of reliable qualitative and quantitative data, at the right time, can address the opacity and the asymmetry elements. These can, in turn, mitigate the risk aspect as the acquisition of information based on an integrated assessment can provide banks with meaningful and reliable data. Cost of lending can effectively be addressed by monitoring activities and acquiring a high degree of specialisation due to economies of scale. Customer retention driven by customer satisfaction and customer acquisition to build on loyalty by providing different services and product differentiation can address the multi-banking aspect. Also, the acquisition of reliable information which mitigates opacity, asymmetry and risk can lead to reducing interest and costs of credit (see Payne 2005; Payne and Frow, 2005a and Payne and Frow, 2005b).

**Figure 75: Customer value and information management towards SMEs and banking institutions**

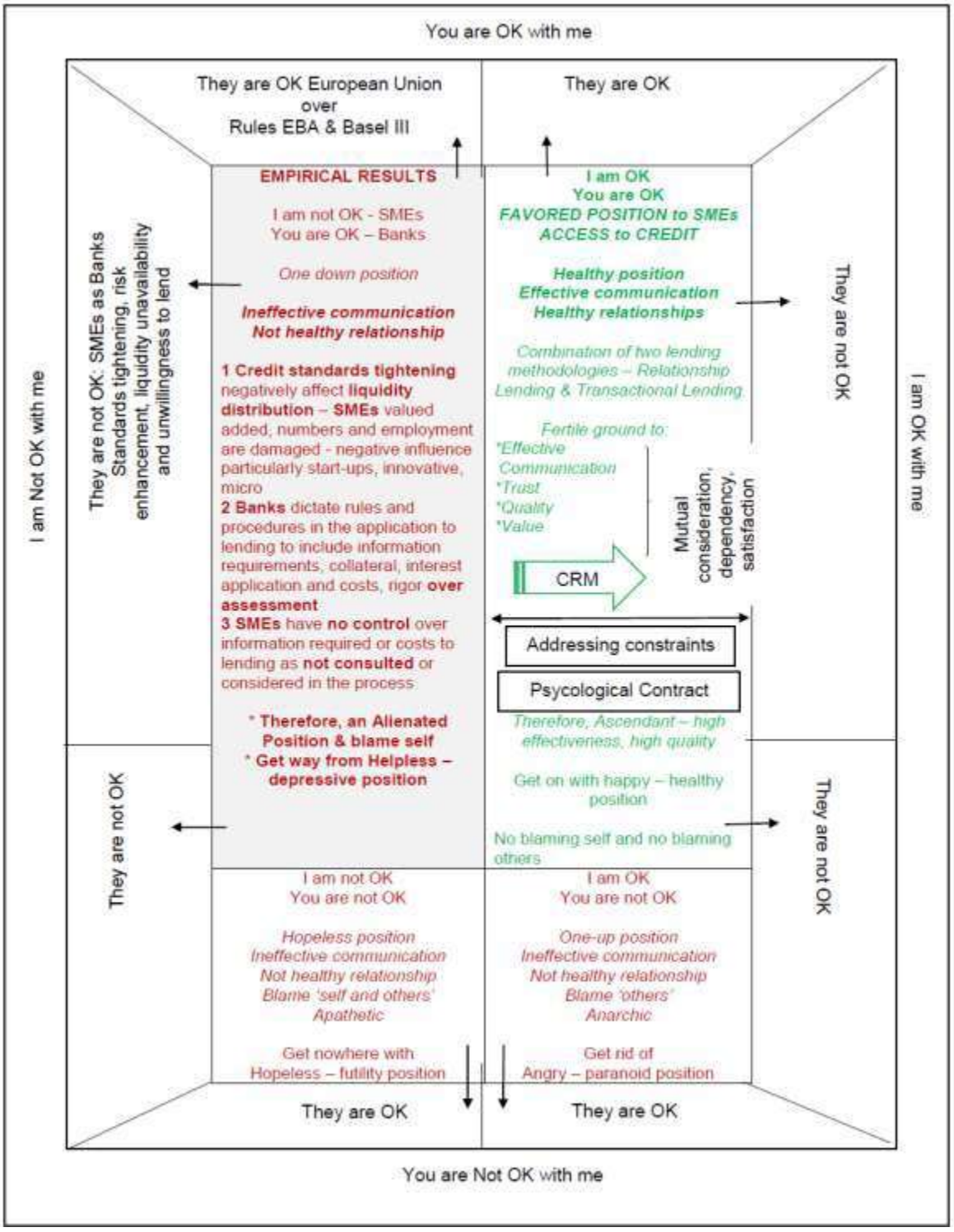
| Elements | Elements for SME | Elements for bank |
|---|---|---|
| **Customer value** enhance: relationship to address | | |
| Total cost of credit (SMEs)<br>Opacity<br>Asymmetry<br>Risk<br>Cost of lending (banks)<br>Customer retention – satisfaction – loyalty (multi-banking issue)<br>Customer acquisition (multi-banking issue)<br>Profits (performance, cost) | √<br>√<br>√<br>√<br>√<br>n/a | √ (knowledge)<br>√ (market retention)<br>√ (addressing opacity and asymmetry)<br>√ (economies of scale)<br>√ (loyalty, can increase due to cost reduction for lending and marketing)<br>√ (knowledge, loyalty)<br>√ (market share) |
| **Information Management** | | |
| Data collection (qualitative, quantitative, relevant, right time)<br>Data aggregation | √ (opacity, inclusion – size & nature)<br>√ (customer satisfaction through value assessment process) | √ (risk, asymmetry)<br>√ (risk, evaluation based on integrated assessment) |

Source: empirical results, literature review and Payne 2005; Payne and Frow, 2005a and Payne and Frow, 2005b

Recapturing the concepts of psychological contract, underlined by the literature review chapter, a mutual expectation and consideration represent an implicit agreement whereby communication effectiveness, as prescribed by a Transactional Analysis theory, can be ascribable to the 'OK' life position corresponding to 'I am OK you're OK' (Stewart and Joines, 2012). Mutual dependency contributes to mutual consideration and satisfaction with the end results (Moro et al., 2012). A psychological contract develops where the concepts of trust and relationship thrive. Within this context, communication is deemed relevant to determine quality, occurrences and causality in a dimension where transactional and relational psychological contract concur to determine the final aim (Businessballs, 2012; Levinson et al., 1962 in Yang and Yang, 2010; Rousseau, 1990; Llewellyn, 2001; Haggard and Turban, 2012 and Kingshott and Pecotich, 2007). In the context of the research, a key question was posed to address the first gap: ***How effective is communication between Banks and SMEs?***

Empirical results indicate ineffective communication between actors. Effective communication where trust, value and quality are effective to achieve a healthy relationship is achieved in a 'I am OK you're OK' position. An orientation towards a combination of the two considered lending technologies to lending can fulfil the objective. This position can lead to developing a psychological contract where CRM is applied. Figure 76 provides a specific and exaustive illustration of the argument.

**Figure 76: OK Corral – towards effective communication**




Source: adapted Mountain Associates, no date and Mountain and Davidson, 2015

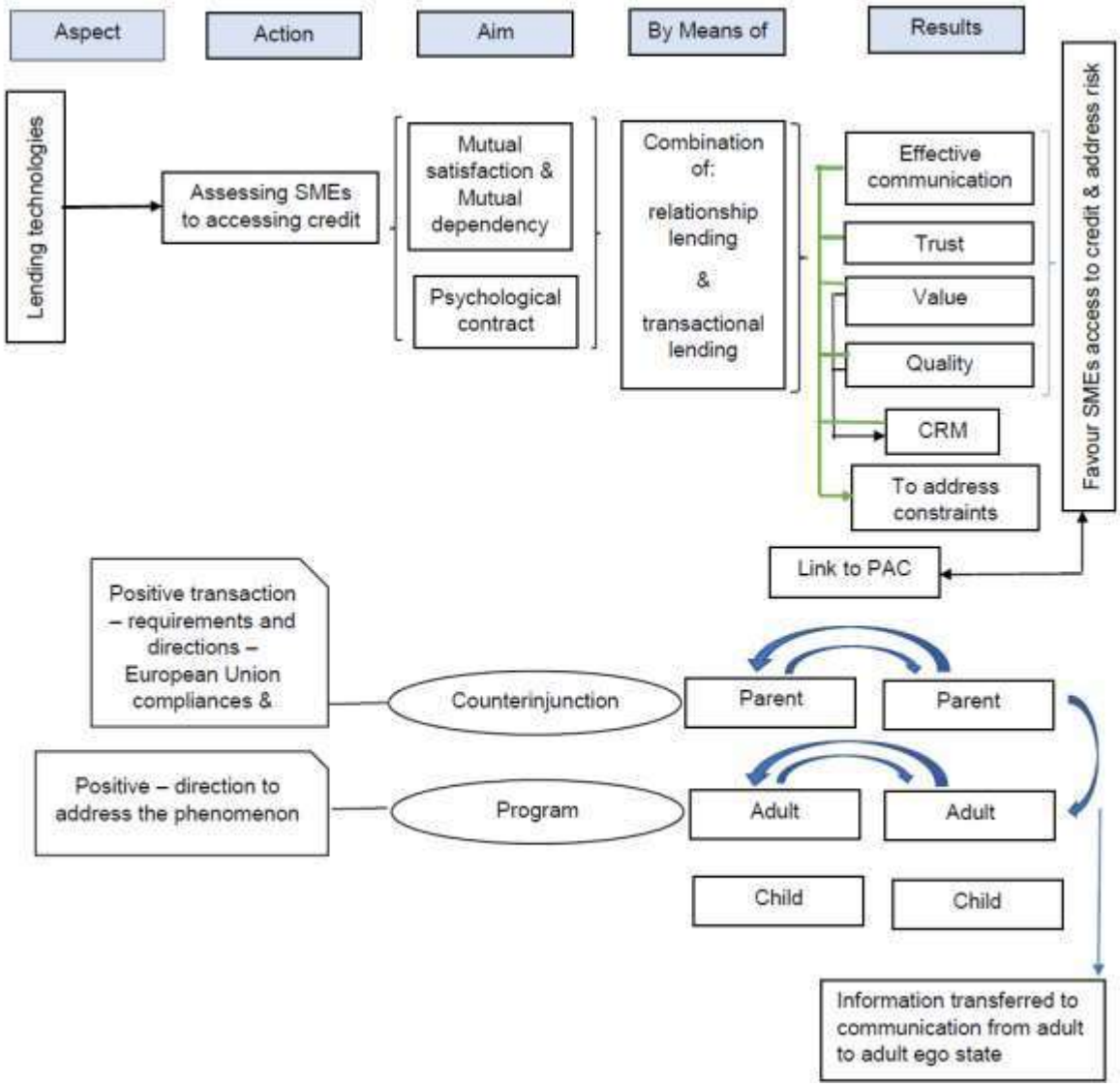
The conclusion about the combination of the two lending technologies contributes to the research debate. It is consistent with Bartoli et al. (2013a) and Fredriksson and Moro's (2014) line of thought. In fact, their conclusions suggest that an interconnection between the two considered lending technologies can be effective

in SMEs' access to credit and concurrently assist Banks. Udell (2008, p.94) underlines that a combination of lending technologies can support a strategy based on 'optimal risk management'. The results are in contrast to the opinions advanced by Levine (2002) who indicates that lending technologies are not complementary nor can they be influencing one other.

A script matrix, recognised as a Transactional Analysis central model, is viewed as a plan where ideas, opinions, responses, actions, perceptions, information and external forces are aggregated and condensed (Mountain and Davidson, 2015 and Stewart and Joines, 2012). A value and quality matrix presenting the phenomenon to strengthen the research position over SMEs' access to credit is therein presented (Figure 77).

The script matrix delineates the action, aim, the means and the results. The model, as prescribed by Transactional Analysis theory, outlines messages between ego states where counterinjuncions, program, injunctions and permissions may be delineated (Stewart, 1996 and Stewart and Joines, 2012). The research results and discussion lead towards a script to underline a counterinjunction between parents' ego states. It also indicates a program message among adults' ego states. Counterinjunction represents a positive transaction linked to requirements and directions prescribed and promoted by the European Union. The program is positive in providing the directions that address the phenomenon. The parent message feeds into the adult position as the European Union's requirements and directions affect this ego state communication.

**Figure 77: Value and quality script matrix of SMEs' access to credit**




## 5.4 Inferences

Following the outline of the research and the analysis and discussion on elements of SMEs' access to credit, the following attempts to combine all of the elements to offer a distinctive idiosyncratic perspective. For those readers most interested in a

summarised reference, Figure 78 at the end of this section provides an analytical synopsis, based on cognitive mapping (see Bryson), on the taxonomy of key elements and associated characteristics and attributes.

As outlined in the introductory chapter, the research aims to probe different elements. The study, in fact, attempts to explore the issue by covering three areas. The elements explored to address the research topic on SMEs' access to credit focuses on 'elements of SME's access to lending', 'lending approaches' and 'local lending'. The elements are categorised to ascribe characteristics and to summarise all of the elements and attributes highlighted by the research. To exemplify, the map portrays the elements arising from the combination of empirical results and extant research. The transactional analysis theory guides the research and its methods are applied to address the identified gaps.

The cognitive map indicates the identified issues as fully discussed by this chapter. A link of the characteristics is provided by drawing interrelated elements.

From the connections mapped in Figure 78, to draw on all three components of this research, it is possible to observe constraining elements in SMEs' access to credit. There are fifteen recognised constraining elements which adversely affect SMEs, as revealed by the analytical process. The research evidence tends to suggest that SMEs find it difficult to access credit mainly due to the bank rigour applied to credit assessment, information asymmetry, opacity, poor credit ratings and excessive collaterals and guarantees all ascribable to the risk element. All types of SMEs are affected by the considered elements portrayed above; however, the research suggests that innovative, start-ups and micro firms, for whom the risk linked to innovation, lack of past records and guarantees ascribable to opacity and asymmetry is deemed significant, are most adversely affected.

Risk, opacity and information asymmetry represent the primary elements for generating an adverse selection condition, which negatively affects rigour in application and financial distribution. The three underlined aspects are, therefore, recognised as negative interlinking forces for liquidity allocation and evaluation processes for credit. The proximity element is recognised as a relevant element which, combined with a relationship lending approach, can positively affect attributes. The attributes drawn by the map connections, in fact, indicate the relevance of the proximity element. This aspect, combined with a relationship

lending approach to assess credit access, can assist in addressing recognised constraints to improve SMEs' access to credit. In fact, proximity allows for business knowledge acquisition and an understanding of the local environment as a typical characteristic of the relationship approach. It enhances awareness of the local reality and of the industrial and business fabric to develop synergic actions in the local community's best interests. This can have a positive effect on local growth and innovation. Knowledge and awareness are two elements which can positively contribute to reducing costs of credit due to the acquisition of information over time as an essential element in the evaluation processes. The acquisition of information can facilitate the monitoring and assessment processes, reduce information asymmetry and address the opacity element. This, in turn, can reduce risk of defaults or insecurity on the returns of advanced funds. Markets and SMEs' knowledge acquisition can reduce adverse selection as banks are more aware of clients' plans and financial tendencies and evolution. Decisions on lending can, therefore, be based on a more realistic vision and on an individual basis by the application of soft data evaluation.

The risk element maintains a relevant position in terms of banks' strategies to address both compliances and SME evaluations for credit distribution. The rigour in lending evaluation processes reported by SMEs is linked to the risk element for defaults and to the tightening of credit lines by banks. In an approach to lending assessment wherein rigour is prominent, opaque businesses are adversely affected by the information asymmetry problem. This can trigger adverse selection (see Detragiache et al., 2000 and Roberts, 2015) and exclude these types of businesses from liquidity distribution. The evidence suggests a clear disparity between banks' willingness to provide credit and SMEs' effective needs. Credit based on quantitative technologies is effective in addressing risk. However, the research indicates that this type of assessment approach to lending has an adverse effect on SMEs. Cost of credit and interest rates are also found to be factors that affect SMEs' ability to borrow. All of these aspects lead to a lack of trust and to the 'financing gap', where the importance of banks' lending and SMEs' lifecycles are recognised as interlinking aspects. In fact, an imbalance in liquidity has an adverse effect on SMEs' ability to develop and grow. The effect is on the stages of the lifecycle and causes a domino effect for interconnected businesses and the ability to promote local and national wealth creation. The inference deriving from the exposed evidence and confirmed by the negative and ineffective

communication pattern points to the conclusion that the application of rigorous hard-type approaches to assessing SMEs' credibility adversely affects their potential to access credit.

As already indicated, the research evidences that businesses rely on financial resources to innovate and grow and a lack of liquidity in resources can, therefore, have a negative impact on the business' lifecycle. The significance of these elements cascades onto the local industrial fabric and onto its potential to provide resource allocation to invest and innovate. The possible effects are on employment levels, disposable income and banks' investments. A decrease in disposable income can signify banks' difficulties in retaining clients, SMEs or individuals in the local communities, a negative effect on product differentiation, cost of credit and interest rates, on deposit levels and on generating profits and funds to invest. (Sala-i-Marti et al., 2010; Everett et al., 2010; Schwab, 2011; Reuttner and Glass, 2011 and Steinberg and Bruno, 2011) Indeed, from a banking perspective, the application of a transactional approach offers a control of risk for defaults and this factor cannot be overlooked.

The discussion of analysed themes leads to the conclusion that a relationship approach to lending can assist in addressing the recognised constraining elements and is perceived by SMEs as an effective approach to lending. However, the evidence highlights that a combination of lending technologies enhances SMEs' access to credit as mutual consideration and satisfaction are achieved. At the same time, information quality and relationship can be enhanced through value and trust building to promote effective communication.

Relationship lending can address the information asymmetry and the opacity to risk control. This can also lead towards a control and a possible reduction in the total costs of credit and interest rate applications. Risk mitigation, by addressing information asymmetry and the interlinking issue of opacity, can, in turn, have a positive effect on rigour over assessment, on credit tightening and on collateral, guarantees and ratings requirements. This is to facilitate access to opaque firms that cannot provide ratings or quantitative-type information and to those innovative types of business for which risk is perceived as an obstacle. In the case of new businesses, the opacity element might be viewed as a predetermined problem; however, this can be addressed through a local lending strategy as knowledge of the local community can be an effective means of assessing the capability of a

new business, both from the point of view of market success and penetration and in terms of the financial reliability and solvability of the proprietors. A relationship lending approach can attend to the problem of adverse selection due to the proximity element through the acquisition of knowledge and information relevant to the evaluation process.

As already underlined, local lending, through a decentralised system structure and enhanced by a relationship lending approach to exploit the proximity aspect, can have a positive effect on SMEs' access to credit. The Hudlersbank, a Swedish bank which is developing in the United Kingdom, is an example of sustainable social banking based on a decentralised structure, where relationship building is a relevant aspect. The objective of this fast-expanding institution does not lie in profit maximisation but in building customer value and aiming to create local wealth. Customer value enhances business potential to expand over the territory. The decentralised system is regarded as a necessary precondition for creating customer loyalty as local branches are regarded as being in the best position to establish connections and to evaluate and understand the environment and businesses (Revell, 2013; Wall, 2014; Treanor, 2012). This approach to SMEs' access to credit can mitigate and effectively address recognised obstacles to SME lending. Local lending, enhanced by a relationship approach, can have a positive impact on SMEs' access to credit to influence the four stages of the lifecycle through a local community focus to boost investment and business growth. Lending orientated towards local business development, innovation and growth can effectively create a texture whereby investment, production, innovation, employment and wealth creation are enhanced in a way which balances macro and micro aspects (Everett et al., 2010; Reuttner and Glass, 2011; Sala-i-Marti et al., 2010; Schwab, 2011 and Steinberg and Bruno, 2011).

From a banking perspective, a relationship approach can be effective to endorse customer relationship management for client retention strategies and, therefore, reduce the multi-banking problem through product differentiations, control over the total cost of credit, interest rates and rigour in lending counteracted by the acquisition of business information. Furthermore, a relationship lending-type approach can reduce the risk of defaults and increase client retention, which, in turn, can lead to increases in financial resources through deposits and

investments (see Payne 2005 and Payne and Frow, 2005a and Payne and Frow, 2005b).

A transactional lending approach can actively act to mitigate the risk element and to assist banks to comply with the external requirements and directions. Indeed, this approach applies rigour and hard type data to the assessment process but this can be mitigated by a relationship lending approach in a local lending context.

The drawn inferences resulting from the assimilation of empirical results, extant literature and the theoretical lens guides towards a model of SMEs' access to credit. The model is presented in Figure 79 at the end of the section. The model is a representation that draws on Transactional Analysis theory for the research where value of information and of the relationship, quality and trust are interconnected elements which can address communication, assimilate recognised constraints and integrate the concept of CRM. An effective communication between actors inform on processes, occurrences and decisions whereby banks and SMEs can both benefit from positive interactions to achieve an optimum position generated by lending technologies aggregation. Risk, opacity and asymmetry are, therefore, addressed. The outcome is an application of customer relationship management (CRM) where information is transformed into useful knowledge towards value creation to embrace both the 'value customer receives' and 'the value organisation receives' (see Payne, 2005). This strategy considers customer satisfaction, customer retention and ultimately to customer loyalty (Kother 1994, in Retap et al., 2016). The proposed approach might lay the foundation of a psychological contract status.

In view of the research findings and in the light of the fact that bank lending plays an important role in SMEs' ability to grow and compete, there is a factual opportunity to create effective systems to further address those recognised critical hindering aspects and promote a relationship lending approach to lending. This is addressed in the next section, which illustrates, by drawing on researched elements, possible solutions as a contribution to practice and an added value element in this research.

**Figure 78: SMEs' access to credit taxonomy – based on cognitive mapping**

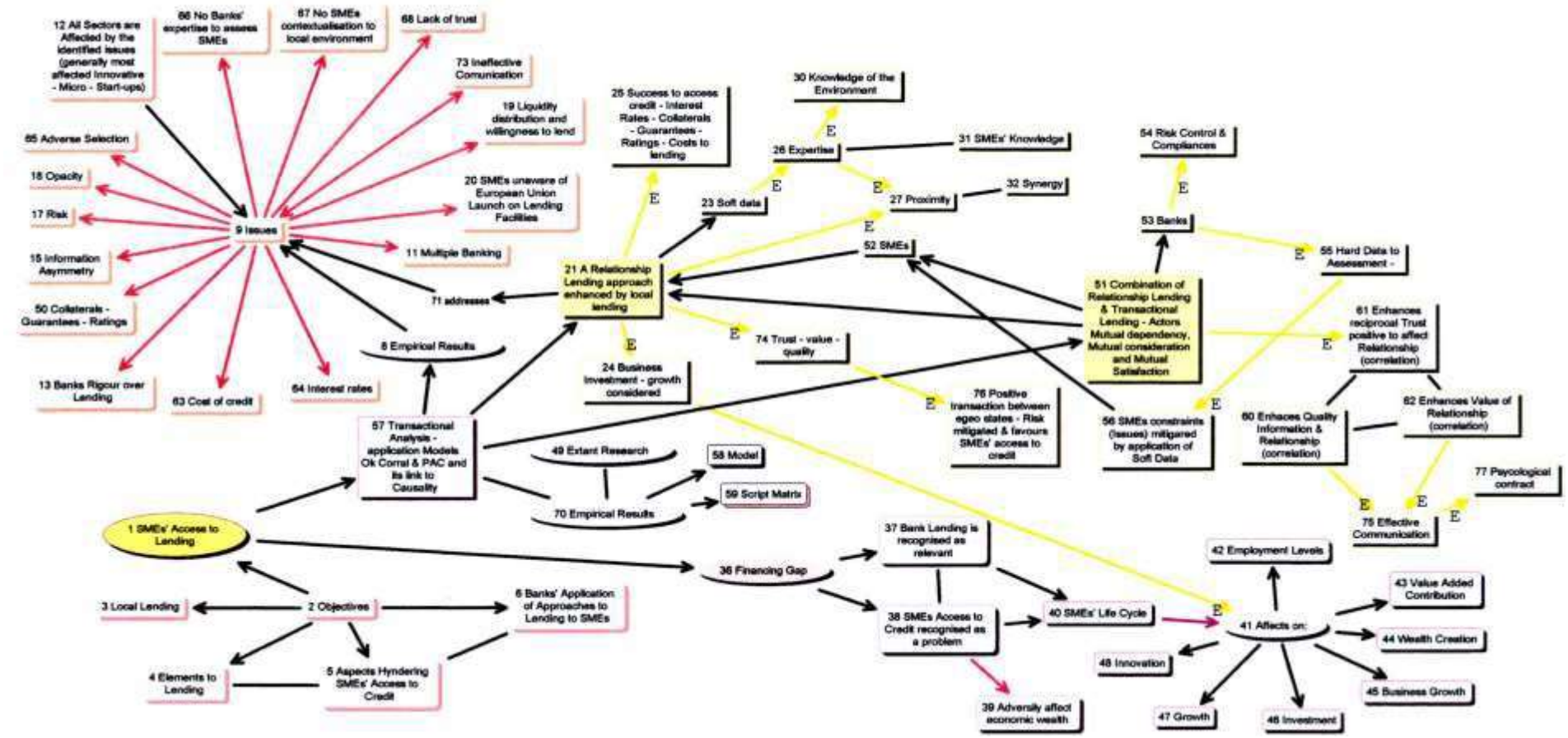
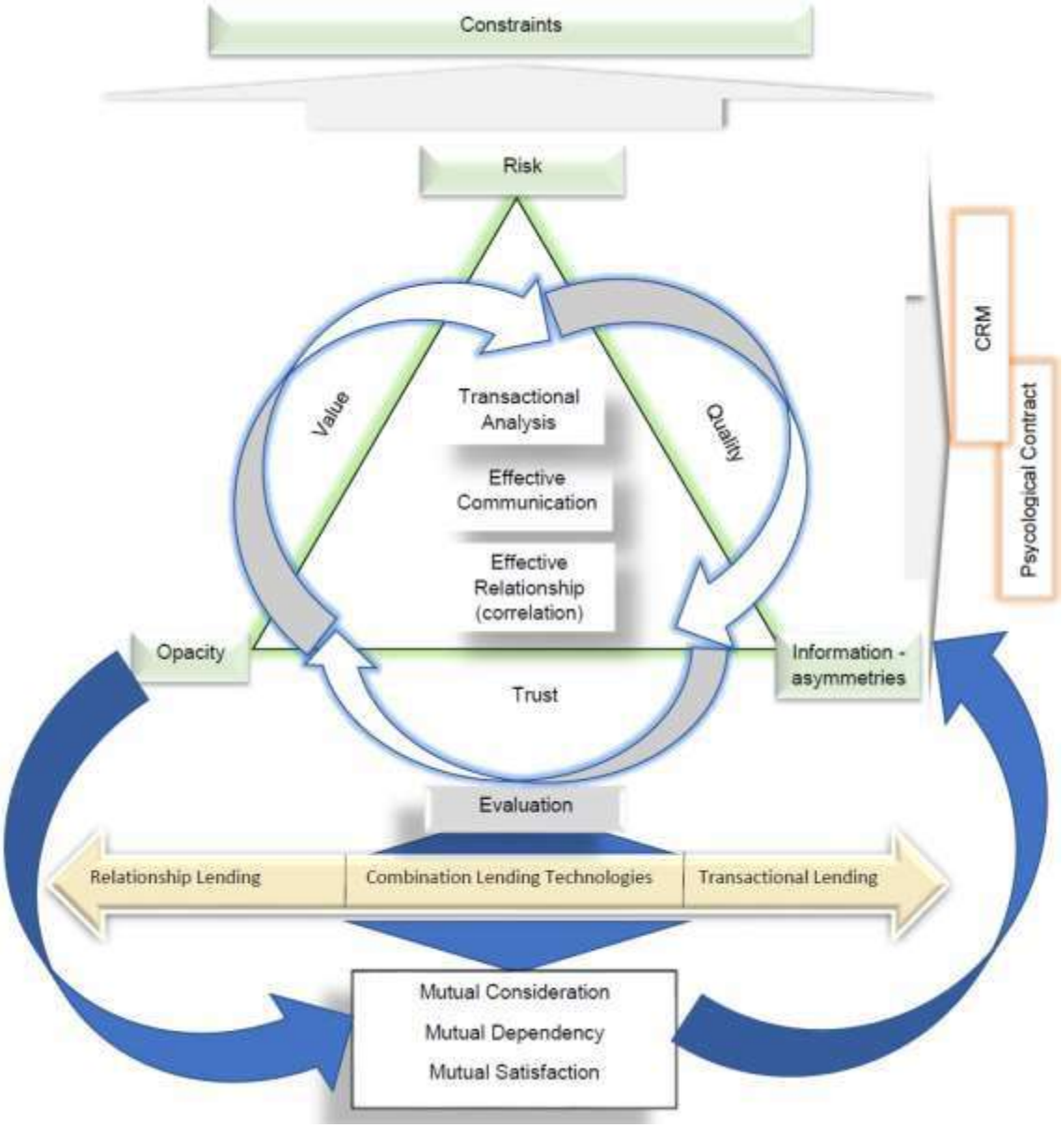


**Figure 79: Model of SMEs' access to credit**



## 5.5 Proposed possible solutions

From a policy perspective, possible propositions are exposed. The attempt is to add value to this research by suggesting three complementary activities that might be considered effective in addressing those recognised critical elements in banks' assessment processes for SMEs. To reiterate, the main critical elements are opacity, information asymmetry, risk, interest rates, collaterals, guarantees and ratings; these are all elements that can be possibly addressed by a local lending strategy enhanced by a relationship lending-type approach. The proposed application, however, offers complementary activities aimed at contributing to the assessment process.

## 5.6 First complementary activity

To reiterate, the conclusion on local lending points towards two main gaps. These are, firstly, the need to create an opportunity for local lending to enhance lending technologies and secondly to establish a niche market for microfinance-type lending.

The research suggests that cooperative banks could be effective local lending entities and might be able to pool resources effectively in creating synergies and promoting regional innovation and wealth (see Blackburne, 2013). Moreover, it is highlighted that local lending can improve the cost of credit due to an effective knowledge of the environment, businesses and other actors involved by promoting the application of a relationship-type approach to lending assessment. There is, therefore, the potential for innovation within the Italian banking system to emphasise local communities' development.

In fact, the study, through an analytical review, indicates that local lending could improve costs and interest rates for applications and promote access to credit. An important ingredient which is considered within the proposed model is the microfinance element of lending activities. Microfinance is recognised as a relevant element in SME financing at the European Union level. To reiterate, the 'European Progress Microfinance Facility' was launched in 2010 with the specific purpose of assisting small businesses to set up and develop (European

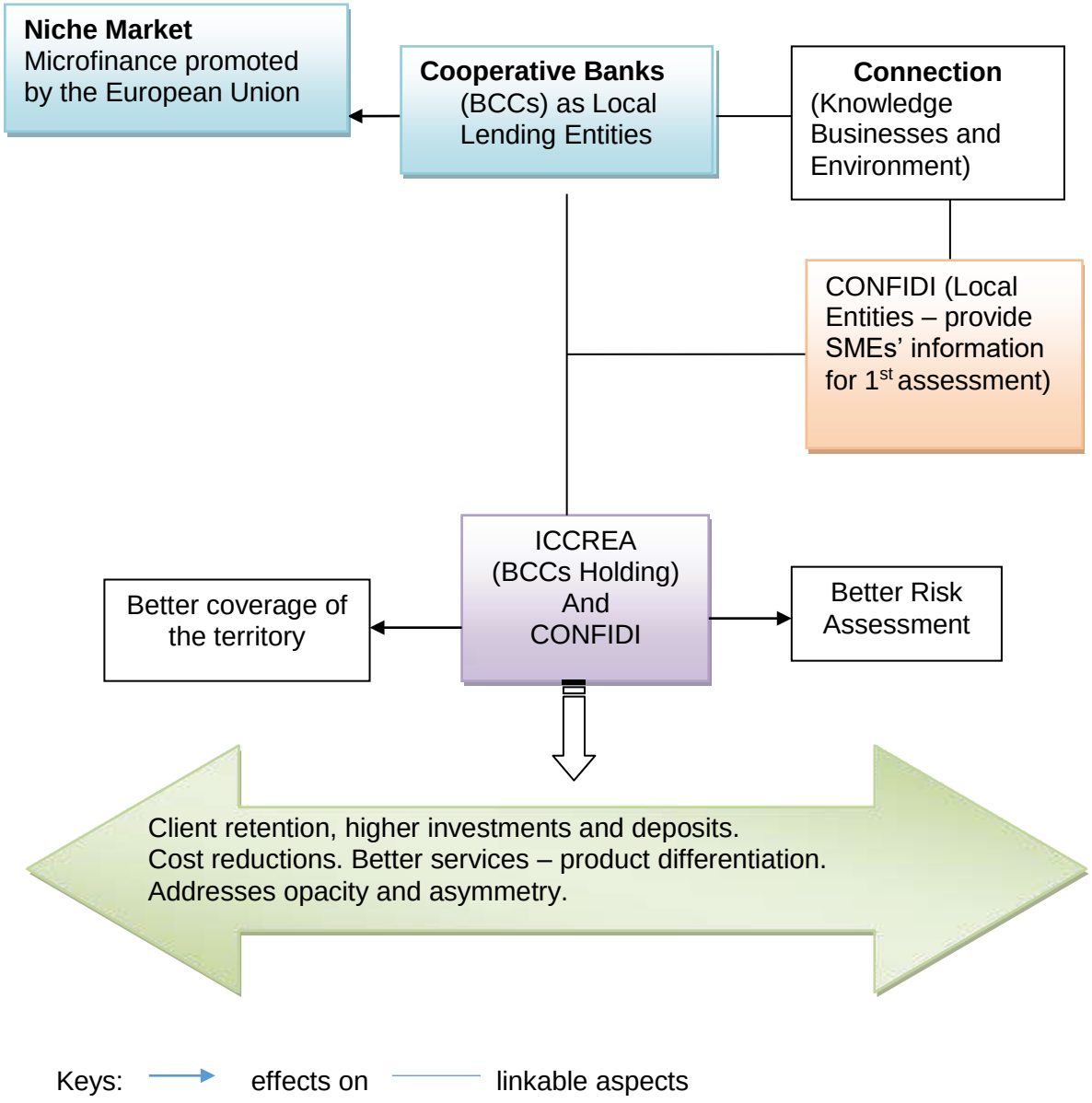
Commission, 2013a). The scheme provides guaranteed support in the case of defaults or non-repayments and risk-sharing support to lending institutions.

A new model, illustrated in Figure 80, is, therefore, proposed to assimilate the identified gaps and the linked aspects.

The proposed model endeavours to bring together two important realities within the Italian credit distribution system; specifically, the cooperative banks and the CONFIDI. The intention is to create a formal link between these two localised, well-established 'mutual' entities for risk sharing, with the objective of reducing the cost of credit and potentially increasing liquidity distribution. This aim, therefore, is an attempt to propose a possible innovation in the Italian Cooperative Banking System (BCC). Hence, the objective is to increase local and regional coverage by creating a formal link between BCCs and CONFIDI guarantee societies towards risk sharing for credit and cost reduction in lending to SMEs. This could also address the opacity and asymmetry aspects of SMEs' access to credit. This cooperation might lead to better services for SMEs, banks' client retention, investment and deposit increases. The microfinance element is proposed as a 'niche market' source of capital within the cooperative banking system by creating a formal link between the European Union scheme and these local types of institutions. Credit distribution, provided by localised links, might contribute positively to SMEs' access to credit and to their ability to engage in long-term investment for innovation with consequential possible positive effects on local wealth and growth.

There is an attempt to provide a possible suggestion to review the Italian cooperative banking system by integrating the CONFIDI as a fundamental part of risk control. In a European Union context, there is scope for promoting cooperative banks' innovation towards local banking practices in terms of SMEs' access to credit.

**Figure 80: Proposed model linking BCC to CONFIDI and microfinance**




## 5.7 Second complementary activity

The study suggests that an assessment based on centralised systems to operate a transactional lending approach can be regarded as an issue of concern due to the necessity of creating an environment where SMEs can benefit from synergic actions and activities. A gap is observed between the application of qualitative information, which the evidence indicates as favouring access to lending, and banks' challenge of risk avoidance.

To address the gap, there might be the potential to create a nationally subsidised or government-led free system to promote decisions based on local systems.

The research indicates that risk is the focal element which impacts on banks' willingness to lend. Opacity is the interlinking relevant element for risk. It has a negative effect on information asymmetry, which contributes to adverse selection as banks are unsure about where to allocate resources due to possible defaults. The research indicates that relationship lending is the most favourable approach for SMEs' access to credit. As the research specifies, this approach is able to address those elements which are recognised as obstacles to SMEs' liquidity allocation from banks. A local lending activity promoted by a synergic action is, in fact, able to provide meaningful information about clients and the environment to include business structures, texture and customers' trends to assess viable plans and projects. This knowledge, complemented by a relationship lending approach, should provide the right assessment ground in reducing the risk factor. Creditworthiness for opaque businesses, especially for new entities, is, however, recognised as a hindrance to be addressed for further reducing the incidence of the risk element in SMEs' assessment for credit. It appears clear from the fieldwork that risk remains a prominent aspect which needs to be fully addressed.

A possible way forward is proposed by a free nationally subsidised 'database' run by an agency, whereby information on local segments' performance and on SMEs' creditworthiness is available to banks to assist them in the application of activities linked to screening, assessment and monitoring. The database would include collected data on SMEs' creditors and industry sector analysis with special emphasis on local business performance and segmentation. Therefore, a database with synthesised data on banking information, creditworthiness, SMEs' creditors and solvency, and industry sector, pattern and performance from local state institutions and banks may be collected and readily available to banking institutions, following the informed consent of clients. A representation of the system's characteristics and interlinking elements for lending is provided in Figure 81.

The proposed database is an attempt to endorse a sustainable free instrument capable of facilitating the assimilation of the 'risk factor' in the credit assessment process as an integration to a relationship lending approach promoted by a local lending strategy.

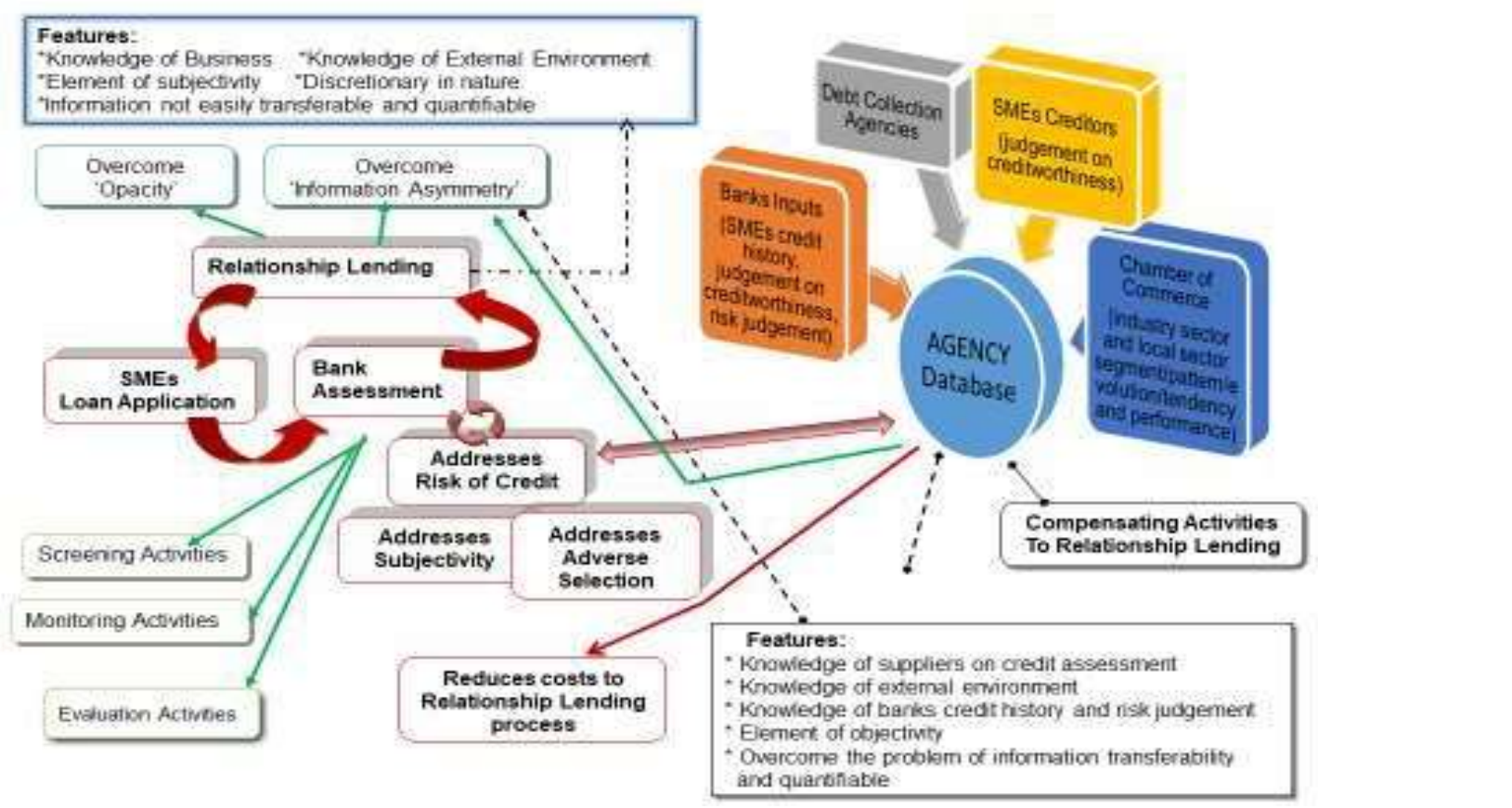
An important database feature would be to assure a system free from biases, where reliable and valid data is provided. The ‘agency’ would, therefore, have no role in data reduction, nor in the assessment processes, and would not provide ‘credit scoring facilities’ or ‘agency ratings’. There is an attempt to address the problem of transparency as opaque SMEs find it difficult to provide external rating-type data or financial statutory information. The evidence indicates that SMEs recognise the rigour applied by banks as a discouraging aspect in loan-type applications and are driven to take advantage of multi-banking. The database would, therefore, attempt to mitigate the multi-banking problem as the application of rigour in the assessment process might be positively addressed. This, in turn, may contribute to reducing banks’ costs linked to screening, evaluating and monitoring with a favourable impact on the cost of credit and interest rates.

The aspects of opacity and asymmetry would be addressed by this complementary activity. SMEs might refrain from disclosing internal information, such as credits, previous banks’ evaluations of credit history, judgements on creditworthiness and banks’ risk assessments. This condition can impact negatively on banks’ willingness to lend, leading to credit tightening and rigour and possibly triggering effects for adverse selection. The database can possibly address this element and provide additional elements for banks’ assessment of SMEs’ access to credit.

Both the literature and findings point towards the subjectivity and the non-transferability of clients’ information, proposed by a relationship lending approach. The database would compensate for this as the information would be objective and easily transferable. Discretion over the assessment for credit would be mitigated. The database would also be a provider of external environmental elements and this could compensate or offer better evaluation in terms of projects’ feasibility for credit assessment.

This proposed activity could, therefore, contribute to or compensate for a relationship lending approach to address opacity and asymmetry, reducing the cost of credit and interest rates, further lessening the impact of risk, and easing banking costs for screening and monitoring, as well as mitigating adverse selection.

**Figure 81: Proposed model – database of the lending process**



## 5.8 Third complementary activity

The research identifies a gap best illustrated as a ‘financing gap’. The study suggests that liquidity allocation through loan credits is a representative element of innovation, development, growth and wealth but a constraining factor for SMEs’ lifecycle evolution. To address the gap, there might be a potential to create a system through a ‘platform’ as an integrative scheme with the European Union’s harmonisation and integration programme proposed by COSME.

To reiterate, the European Union aims to increase awareness of the importance that loan-type financing assumes in SMEs’ ability to grow, innovate and develop. The extant literature also emphasises these aspects. The attempt of the European Union to move towards harmonisation and standardisation of systems, through the COSME platform, is a sign of the importance placed on the theme of SMEs’ access to credit. The COSME system, as already underlined by this study, proposes a time limit scheme to conclude in 2020.

As the evidence suggests, banks’ availability for lending is impaired by the risk element, which leads to credit tightening and rigour over lending activities to opaque businesses, namely SMEs. As already fully emphasised in the study, the risk factor is a persistent and critical factor which influences credit distribution. Opacity and the interlinking asymmetry aspect are contributory elements of risk. The evidence further underlines how the three critical elements of risk, opacity and asymmetry can have a negative impact on interest rates and the cost of credit. These characteristics, together with rigour over assessment and capital requirements, impact negatively on lending activities and reduce liquidity distribution, leading to SME closures and defaults and increasing the multi-banking phenomenon. The research’s final conclusion is to possibly suggest the application of relationship lending in a local lending context, whereby the concentration on community development and wealth can lead to the application of a qualitative-type approach to SME assessment processes. An approach to credit evaluation based on a relationship approach to lending assumes relevance in creating an environment wherein lending activities may be enhanced as risk to lending, information asymmetries and opacity might be effectively addressed. This line of action, however, might be supported by providing a contributory system to

offer readily available, standardised and free information to banks which can be used as a supplementary instrumental means of achieving a relationship-type assessment approach. At the same time, it would create the scope to mitigate these elements related to the cost of lending (Dabrassi Prandi, 2006; Petersen, 2004; Berger and Udell, 2006; Boot, 2000; Bongini et al., 2009; Payne, 2005; Berger and Udell, 1995; Elsas, 2005 and Detragiache et al., 2000).

The platform is to propose a two-tier application system. A synopsis of the rationale behind the proposed model and an illustration of the proposed platform's interlinking elements are illustrated in Figures 82 and 83. The proposed platform is directed towards the provision of an additional and integrated system for long-term orientation. The scheme is to provide data through a European subsidised database, with features set according to European standardised requirements and specifics. The scheme would promote competition, possibly leading to a reduction in banks' lending costs and promoting credit activities to enhance those integrated practices offered by a relationship lending-type approach.

The proposed system could possibly address the opacity, asymmetries and cost control linked to lending. The aim of the proposed platform is also to place control over interest rates on lending to follow the indications set by the European Central Bank on integration and control. In fact, the suggestion is to create a feature to offer the possibility of simulations to indicate banks' applications of total costs, including interest rates, for SMEs' specific loan requests. It would be an integrated platform system, designed to allow SMEs to visualise offers by banks across the European market area, thus to be offered a supplementary choice over access to loan finance. The scheme, in fact, could be an attempt to promote competition, possibly leading to a reduction in the cost of credit and promoting credit activities to enhance those integrated practices offered by a relationship lending-type approach.

The platform aims to allow the European Central Bank control over costs of credit and interest rate applications. The purpose of the platform would be to set standardised information requirements to this end. Furthermore, the scheme could provide banks with standardised information related to creditworthiness and information on SMEs. The proposed system, alongside the present COSME scheme, is, in fact, to generate standardised features to provide quantitative data which opaque SMEs are lacking, contributing to banks' assessments for lending.

Access to national databases, as proposed by this chapter's first activity, could offer qualitative and additional quantitative-type data to add to the evaluation of SMEs' credit distribution. The proposed scheme would, therefore, as envisaged, provide a feature to enable national and European authorities' controls over interest rates and cost of credit with a possible positive effect on the total cost.

The first tier proposed by the platform is to promote credit applications by way of a European Central system. This proposes two possible solutions.

A first option offers SMEs the possibility, through simulations, of viewing the total cost and interest rates offered by specific banks for a possible credit application. They could then apply to the selected bank by direct contact. SMEs can make simulations and apply for credit across the European Union area. Also, the platform highlights specific banks' requirements for accessing credit. The objective is to increase rivalry (Porters, 1990), leading to cost reductions and to possibly enhancing local lending systems' approaches enacted by the competition.

Simulations can be made by the European Central Bank (ECB), National Central Banks (NCB) and the European Investment Bank (EIB) to give control over interest rates and costs charged by banking institutions. The resulting reports, views and recommendations from these consultations, by the three public bodies, are to be fed into the platform to provide transparency. Furthermore, the platform proposes consultations between businesses, between businesses and banks and between the European Central Bank and National Central Banks. Again, these consultations are to be fed into the platform.

The platform could offer a feature whereby SMEs' information is fed into the system. The information to be provided by banks is in relation to previous and existing loan-type credits, repayment levels and general data on effective client investment outcomes versus advanced credit for proposed plans. Banks can then access this type of information to contribute to SMEs' access to credit evaluation. This, alongside the access to possible clients' creditworthiness and key market data through established free national databases, as proposed by this chapter's first complementary activity, may add further value to banks' assessment processes. These described features to make standardised data available to banks may address opacity and asymmetry, with a possible positive effect on risk for lending.

Therefore, a platform would serve the needs of both banks and SMEs to possibly mitigate these recognised obstacles to lending and to favour access to credit.

The second option offers an alternative to the newly exposed scheme. This is to create a facility whereby SMEs can directly apply for the funds promoted by the Central European Bank. This is achieved through a purposely created institution at European level which is not to focus on profit maximisation but rather on delivering those financial facilities planned by the European Central Bank. This might be an option for those new and very opaque SMEs that have difficulties in accessing credit due to their inability to provide credit history records of a business or personal nature.

Another service proposed by the platform is to provide microfinance-type lending through local banks at national level (e.g. cooperative banks) or directly by the fund scheme through the proposed European institution.

The conclusive objective of the proposed scheme is, therefore, to address the cost of credit and interest rates to possibly reduce their impact on SMEs' access to credit by focusing on transparency to trigger, through consultations, a direct contact between businesses and decision-making institutions. The platform is to further suggest the creation of a European institution to favour credit access for the most opaque SMEs.

The second tier proposed by the platform is for SMEs to apply directly to those banking institutions which subscribe to the COSME scheme. Empirical evidence on SMEs' perceptions, however, suggests that businesses are not aware of the COSME scheme as banking institutions appear not to provide information about their existence and provisions.

In conclusion, local lending is recognised as a way to create synergies between different actors to include local types of institutions and businesses, whereby proximity allows an assessment based on a combination of environmental knowledge and firms' activities. Alongside this, a platform-type model might be an additional tool to assist in creating and enhancing competition between institutions with a possible consequential positive effect on costs of credit and interest rates. Furthermore, this type of platform might allow a control over these types of costs for both national and European Union authorities. Competition may be able to promote local lending entities to favour SMEs' access to credit through a

relationship-type approach. A platform might be able to boost credit activities across the European Union, to enhance banks' customer relationship management by encouraging a strategy based on product differentiation and on tailor-made services aimed at client retention, increasing investments and deposits for profit creation. From a policy perspective, the proposed platform attempts to put forward complementary activities that might be effective in addressing those elements hindering banks' processes of assessment for SMEs' access to credit.

**Figure 82: Rationale behind the proposed model (platform)**

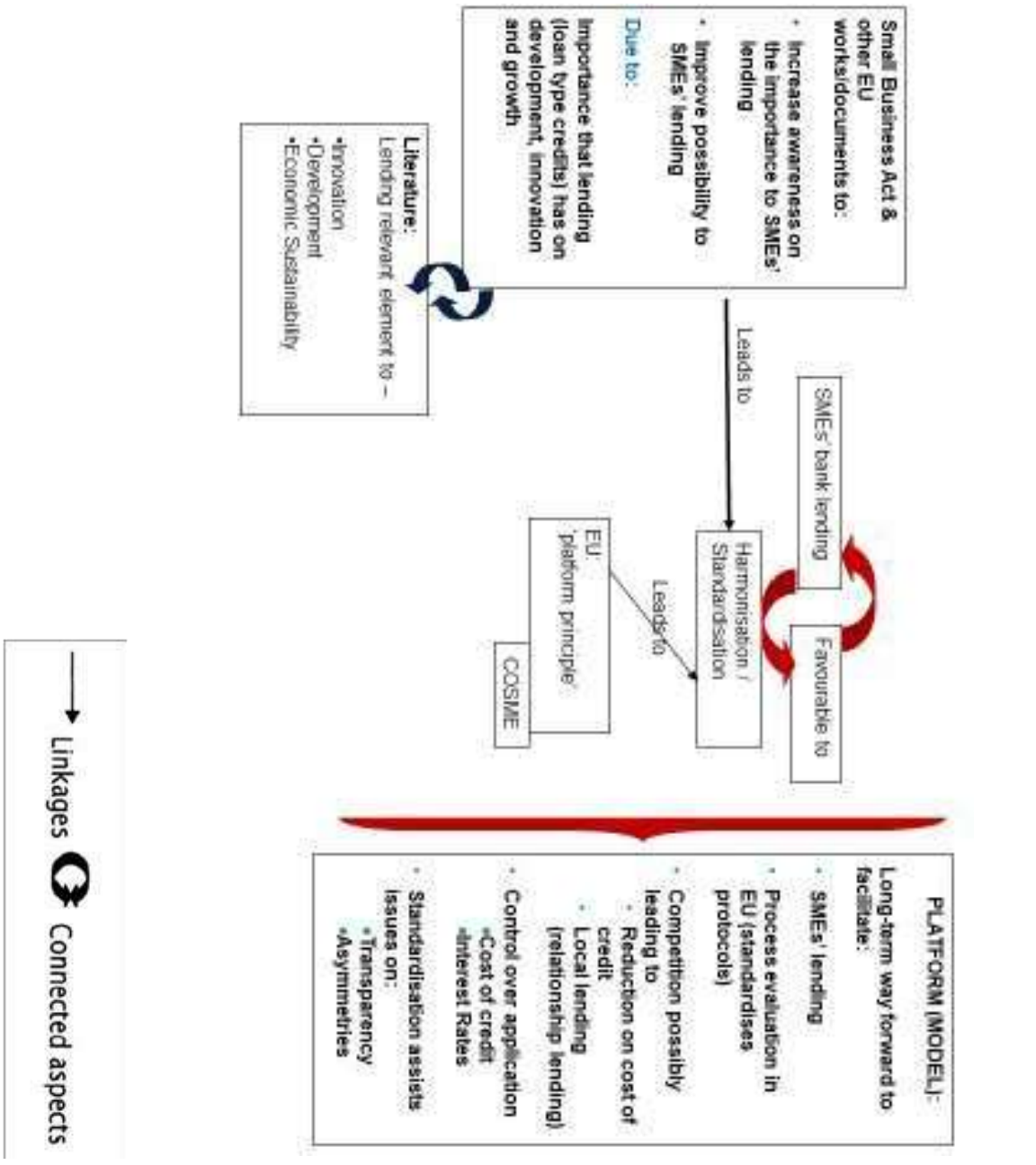
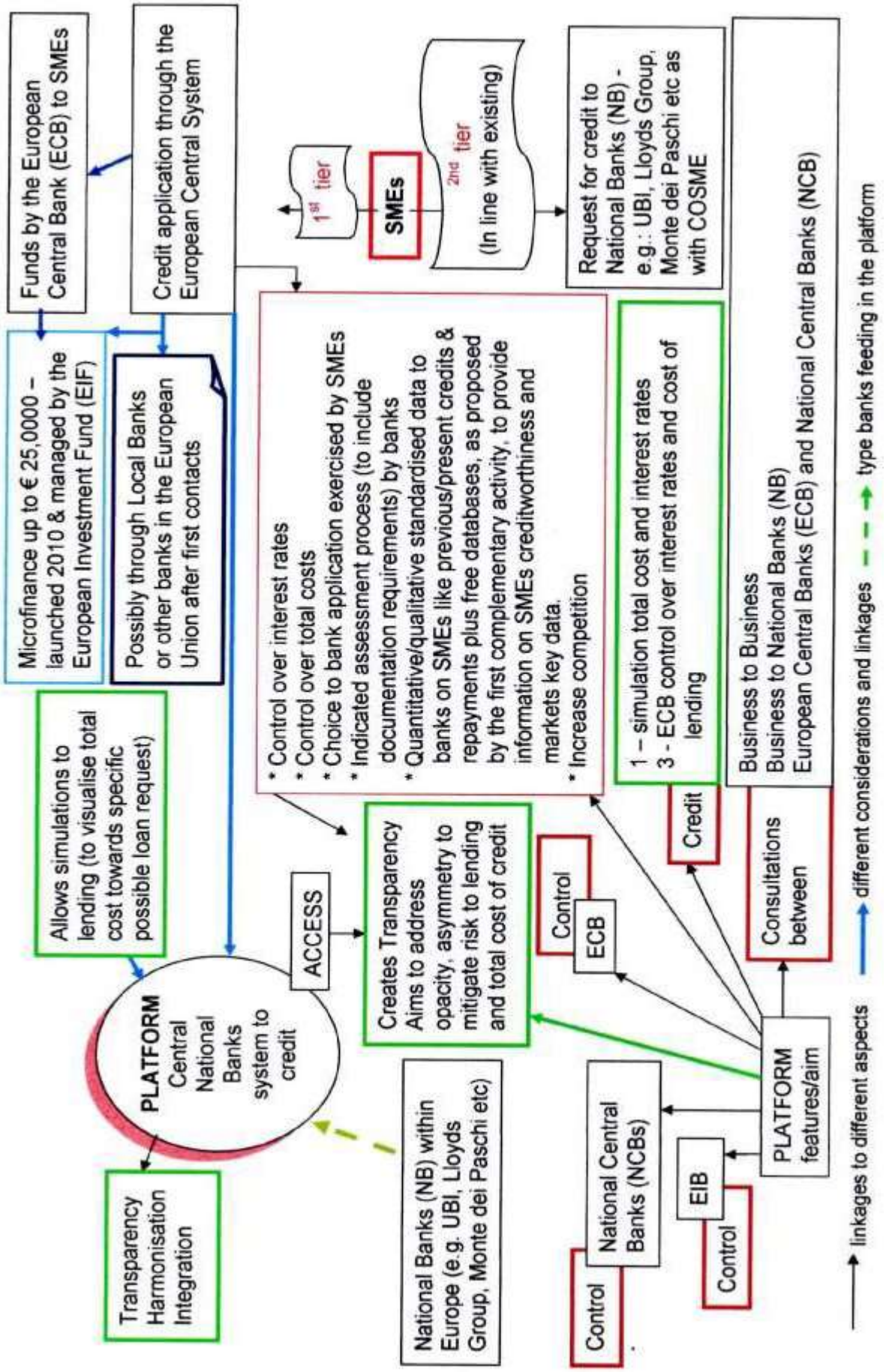


**Figure 83: Proposed platform – two-tier application for SMEs' access to credit**



## 5.9 Chapter summary

In conclusion, by bringing together the discussion of findings and literature on the topic, the indication is that the three explored aspects, ‘elements of SME lending’ ‘lending approaches’ and ‘local lending’ show common characteristics. The aggregation of the themes related to lending activities paints a clear picture of the possible path to favouring SMEs’ access to credit. In fact, drawing on one aspect without the linkage to the other two would address the problem only partially.

The element of proximity and the endogenous elements of this feature assume relevance in the context of SMEs’ access to credit. Proximity enhanced by local lending and a relationship lending activity reduces the risk element by favouring local synergies and environmental knowledge for the credit assessment process. The study illustrates that, in fact, local lending can be effective in the distribution of capital financing for SMEs. The integrated exploration of those elements recognised as hindrances to SMEs’ access to credit uncovers aspects that impair banks’ liquidity availability and willingness to lend. These are exogenous elements ascribable to recessive periods and to the European Union requirements having an impact on credit standard tightening for SMEs’ credit lines. The risk element, although applicable to all SMEs, is enhanced by factors like size, age and innovative sectors with emphasis on start-ups, micro and innovative firms. The opacity and the asymmetry factors are evidenced as connecting elements for the risk of lending. These elements contribute negatively to credit distribution, to the total cost of credit and to banks’ willingness to lend, which negatively affect SMEs’ lifecycles. The proximity ingredient, to promote local lending, and the uncovered elements, which adversely affect liquidity distribution, leads to an enquiry into the processes followed by banks in the assessment of SMEs’ access to credit. Therefore, the research, in a European Union context through a comparative study, indicates that banks’ assessment of SMEs’ access to credit is based on different approaches described as transactional and relationship lending options. These differences are attributable to bank strategy orientations. A synoptic overview of elements and conclusions is presented in Figure 84.

**Figure 84: Elements and inferences for SMEs' access to credit**

<table>
<tr><th colspan="2">Elements</th><th>Conclusions</th></tr>
<tr><td>Relationship Lending<br>* Information asymmetry<br>* Opacity<br>* Expertise (screening, evaluating, monitoring)<br>* Knowledge of businesses (SMEs)<br>* Cost (for banks) reduced (cost-absorption) by relationship over time</td><td rowspan="2">* Multiple relationships<br>* Difficulty in accessing credit<br><br>Assessment Elements:<br>* Creditworthiness<br>❖ Ranking<br>❖ Ratings<br>* Guarantees (personal and business funds)<br>* Collaterals<br>* Ratings<br><br>Opacity & Asymmetry<br>Unfavourable element leading to adverse selection<br><br>Relationship lending may be positively to influence:<br>*Cost of credit<br>*Interest rates<br>*Degree of success on loans application</td><td rowspan="2">A need to combine<br>1 - Banks' needs regarding 'risk & cost'<br>2 - SMEs' needs regarding access to credit<br>* Control over cost of credit and interest rates<br>* Overcoming opacity issue<br><br>First step: relationship lending enhanced by local lending and proximity – effective for SMEs' access to credit as:<br><br>* Monitoring based on relationship building<br>* Cost reduction in accessing information to assess SMEs<br>* Control over costs and interest rates<br>* Reduce risk to lending<br>* Reduce multi-banking<br>* Reduce adverse selection<br>* Mitigate requests over:<br>• Collateral<br>• Guarantees<br>• Ratings<br>Creates the scope for:<br>* Trust<br>* Value (information & relationship)<br>* Quality (information & relationship)<br><br>Second step: relationship lending enhanced by local lending and proximity combined with transactional lending – effective for SMEs' access to credit as:<br>* Mitigates risk factor<br>* Creates mutual Satisfaction<br>* Communication Effectiveness<br>* Further enhances:<br>• Trust<br>• Value (information & relationship)<br>• Quality (information & relationship)</td></tr>
<tr><td>Transactional Lending<br>*Cost reduction for lending activities (for banks)<br>* Transferability of information (centralised structure)<br>* Easy access to data<br>* No environmental knowledge<br>* Opacity<br>* Information asymmetry<br>* Adverse selection</td></tr>
</table>

This chapter, in the light of the empirical evidence, has further proposed three possible complementary activities which may be considered as possible cooperating actions to address recognised obstacles to SMEs' access to lending.

The proposed activities or features represent ideas that might be able to address the three recognised critical aspects in lending activities and banks' willingness to engage in SME liquidity loan-type distribution. These critical aspects are opacity and asymmetry and the related risk of defaults or non-repayment of credit.

The proposed features attempt to offer quantitative-type data alongside qualitative information to integrate or to provide evidence that opaque SMEs are unable to supply through statutory-type data or other hard-type evidence.

In one instance, there is a proposition to innovate the Italian cooperative system to integrate existing entities for risk control and mitigation. This might be a suggestion for the European Union to spur the innovation of these types of local lending activities due to their importance for regional and national fabric textures and for lending activities to favour SMEs' access to credit.

The next chapter provides conclusions delineating the research aim and objectives, research contribution, problems and flows and further areas of scholarship.

# Chapter 6: Conclusions

This chapter is to conclude the thesis by reiterating the research aim and objectives and to outline a synopsis of key findings. Next, it delineates the contribution to theory and practice. It highlights the limitations of the research and possible suggestions for future studies in the field.

## 6.1 Research aim and objectives

The research aim is to explore and critically review SMEs' access to credit in a European context through an SME perspective. This section is to present the research conclusions on the explored area of research through an application of Transactional Analysis theory to understand occurrence. Conclusions are related to the research's posed objectives and main questions to address gaps.

The first and second objectives were to enquire into **'elements constraining banks' liquidity allocation to SMEs'** and **'aspects hindering SMEs' access to credit'**.

The main questions posed by the research were:

***RQ: What elements might hinder liquidity availability and willingness to lend to SMEs?***

***RQ: What are the characterising elements in SME lending?***

***RQ: What are the elements which might affect banks' distribution and SME lending?***

***RQ: What are the effects on SMEs' access to credit?***

The study underlines that banks' availability for liquidity allocation and willingness to lend are adversely affected by two pressing aspects. These are the possible effects of financial crises on SMEs' ability to continue operating and the introduction of the Basel III and the EBA requirements, following the 2008 financial crisis, on banks' risk exposure. These elements have led to credit tightening and a negative impact on SMEs' credit allocation. The success in obtaining loans has, in fact, deteriorated since the last financial crisis. The enquiry indicates that opaqueness is relevant to reducing SMEs' ability to access credit, due to the risk

element brought about by the inability to respond to banks' rigour imposed in the evaluation of credit and due to poor credit ratings. An asymmetry of information contributes to the opacity element as businesses are unable to provide meaningful data. SMEs' inability to provide insufficient collateral negatively affects credit allocation. The results reveal that all of the exposed aspects contribute to weakening SMEs' ability to access credit. Furthermore, there are indications that these elements have a negative impact on the cost of credit and interest rates, which further exacerbates SMEs' access to credit. The study indicates bank lending as relevant to SMEs' lifecycles; however, it recognises access to credit as a problem, highlighting the financing gap. The consequences are that difficulty in accessing credit has an unfavourable impact on SMEs' lifecycles. A reduction in financial resources adversely affects innovation and growth with a cascade effect on the number of SMEs, their added value and on employment levels, reducing disposable income and investment, with an undesirable result for local and national economic wealth.

The third objective to be addressed by this research was **'banks' application of approaches to lending to SMEs'**.

The main questions to address the objective and the gap were:

***RQ: What is the most effective lending technology that can serve SMEs?***

***RQ: What is the lending technology that might best address actors' mutual satisfaction?***

The findings indicate that a relationship lending approach, as opposed to a transactional one, can be most favourable for SMEs' access to credit. The elements drawn from this study further underline that aspects like opacity and asymmetry are linked to the risk of lending. A relationship approach can effectively address the opacity element, as proximity to businesses can positively contribute to the evaluation process based on knowledge of businesses and the environment. The study highlights that SMEs can informationally be captured. In fact, the bargaining power exercised by banks for contractual agreements is influenced by SMEs' creditworthiness, like rankings and market ratings or

guarantees, caused by the opacity and the asymmetry elements. Moreover, these aspects can negatively influence the total cost of credit, including interest rates. The evidence suggests that banks apply rigour in terms of information requirements for SME loan-type credits. This, in turn, prepares the ground for SMEs to operate on a multi-relationship basis to take advantage of different types of credit. The opacity element and the asymmetry aspect together with the described interlinking elements lead to adverse selection, as it becomes critical for banks to allocate finances. The risk element linked to opacity, asymmetry and the consequential inability to provide meaningful data is, therefore, recognised as a critical aspect which exacerbates credit allocation.

A relationship lending approach to SMEs' access to credit best responds to addressing all of those identified distressing elements affecting lending activities. This can be achieved by an established relationship based on a knowledge of both the environment and businesses by taking advantage of the proximity characteristic and the consequential expertise in screening, evaluation and monitoring activities. An assessment based on a relationship lending approach is favourable to banks as it attempts to address the risk problem with a consequential possible impact on client retention, and liquidity allocation to increase investments and profits. The application of a relationship approach to SME lending deals with all of those recognised hindering aspects, increasing the choice of services offered by banks and paving the way for investment and growth to respond to the financing gap.

The research, however, further highlights that a combination of relationship lending to a transactional approach can contribute to addressing most effectively SMEs' necessities and, concurrently, can respond to banks needs brought about by the risk element and European Union compliance. Mutual integration of lending technologies can assist in creating effective communication between banks and SMEs to enhance trust and promote value and quality both concerning information and relationship fulfilment. An orientation towards a customer relationship management (CRM) approach enhances the delineated aspects.

The fourth objective of this study was to question **'local lending effects on SMEs' access to credit'**.

The research question was:

***RQ: What are the effects on SMEs' access to credit?***

Theoretically derived concepts and findings clearly indicate that local lending can be effective in contributing to SMEs' access to credit. SMEs acknowledge that a local lending application might contribute to a reduction of interest rates and an advantage in accessing credit. Indeed, SMEs tend to apply through cooperative banks which are representative entities in a local lending setting. Furthermore, SMEs, although not often applying for microfinance, consider this source of financing positive in terms of guarantees and the required documentation; two relevant constraining aspects. The study emphasises that the dynamics and the interaction of different actors, like cooperative banks as local lending entities, CONFIDI as intermediary entities for credit allocation, SMEs, the local community and district/cluster realities, can contribute to growth and resource allocation and creation. This can have a potential positive effect on the regional and national economic fabric to increase the capability of SMEs to innovate and develop, as resource allocations are driven by the concept of economic development, growth and wealth creation. Following this concept, an increase in disposable income might be a resulting attribute that can lead to an increase in demand. Disposable income can further contribute effectively to increasing banks' deposits and investment to generate liquidity, which can positively affect the availability of loan-type credits. Increases in demand have a positive effect on employment levels, on production to respond to demand, and on investment for profit generation and investment. Local lending, taking advantage of direct contacts with local businesses and other existing actors, facilitated by the proximity element, can, therefore, effectively contribute to SMEs' resource allocation and to wealth creation. It is however assessed that the positive effect of a local lending strategy is enhanced by a relationship lending technology application for SMEs' access to credit.

## 6.2 Research contributions

The research's contribution to knowledge in terms of the 'researched area', 'methodology' and 'policy' is illustrated in Figure 85 at the end of the chapter.

### 6.2.1 Contribution to the researched area

SMEs' access to credit is an important topic which, in view of the 2008 financial crisis and the related consequences briefly exposed in the introductory chapter of this research, has become a relevant subject of enquiry at European Union level. This is attributable to the importance of the contribution of SMEs to national employment and added value with effects on growth and wealth creation.

To reiterate, the research enquired into elements of SME lending, lending approaches to SMEs' access to credit and local lending. The research contributes to this area by bringing together different aspects related to SMEs' access to credit and by linking them together. Transactional Analysis was the theoretical lens which guided the research. This, together with new empirical evidence, offered a different perspective on the interpretation of the phenomenon. This was achieved by a case study-type strategy, wherein Italy represented the critical case. The United Kingdom and Germany represented two minor cases, at times applied for comparative purposes to rehinforce some of the researched aspects adding to validity. This strategy was underpinned by a descriptive survey. The research adds value in terms of knowledge by providing additional elements on the panorama of SMEs different lending attributes and distinct perspectives on SMEs' access to credit by the application of a different theoretical lens for the topic. These outlined contributions to knowledge are aimed at adding to the academic discourse.

The research contributes to knowledge by providing an integrated vision of the occurrences through the application of a different type of analysis. The purpose of this research was to contribute to the existing literature by highlighting elements of SME lending. The objective was to understand the linkages that recognised how lending constraining factors might have an effect on the ability of SMEs to access credit. The final aim of the study was, through a different type of analysis and application of a theoretical lens, to examine the reviewed aspects and to provide,

in view of the uncovered elements, the emerging perspectives on those drivers which favour SMEs' access to credit.

The focus of this research was on SMEs and their ability to access credit, loan finance from banks, and to address elements which might favour this access. The research highlighted how local banking combined with a relationship lending approach can be effective for SMEs' access to credit, favouring communication patterns by enhancing value and quality elements. Synergic actions, as proposed by districts/clusters, can positively impact on the wealth of a national economy. Italy, due to its structural characteristics, both in terms of cooperative banks and district/cluster developments, was selected as the focal point on which to develop this type of study.

The study explored elements of SME lending, to uncover possible aspects that might negatively affect banks' liquidity availability or willingness to lend and to address those aspects that can adversely affect SMEs' access to credit. The contribution has been to add to knowledge by offering an integrated perspective through a comparative analysis to uncover elements and to provide an analysis of those interlinking aspects that might negatively affect liquidity allocation and their possible effects.

A further contribution to literature was to strive to develop, through a country comparison of the application of different lending approaches, an understanding of the complexities related to SMEs' credit access and the elements that might impact on different approach options. The contribution to knowledge has, therefore, been two-layered. In the first instance, it endeavoured to add to the debate on the topic, through a combination of empirical results and a three-country evaluation, by providing a complementary perspective of banks' credit assessments for SMEs. Secondly, it endeavoured, by assessing the constraints that can affect SMEs' ability to access credit, to consider which approach to lending can improve liquidity accessibility and distribution. The results of the research, on the effects of a relationship lending approach in terms of the access to credit for SMEs, agrees with the extant literature in recognising this type of approach as being favourable in addressing the recognised obstacles. The outcomes further add to the debate by considering that a complementary

application of the two considered lending technologies, to assess SMEs, is effective in serving businesses and contributes to addressing the risk element considered as one of the most relevant constraints affecting collateral, guarantees, ratings and rigour in terms of information required. In fact, a combination of the two lending technologies can lead to actors' effective communication and to value and quality development towards mutual consideration, dependency and satisfaction. These elements can be linked to the concept of customer relationship management leading to the psychological constract.

The research proposed a model of SMEs' access to credit to link elements and the interaction between them. This, it is believed, could contribute to theory adding to the debate on SMEs' access to credit.

### 6.2.2 Contribution to methodology

Research on SMEs' access to credit is usually managed and dominated by a quantitative-type study to enquire into specific elements by developing and testing hypotheses (e.g. Ayyagari et al., 2008, Beck et al., 2008; Demirguc-Kunt, 2006; Coluzzi et al., 2009, Ferrando and Griesshaber, 2011; Ruis et al., 2009; Cotugno et al., 2013 and Elsas and Krahnen, 1998). This study was orientated to combine qualitative and quantitative methods with the aim of adding empirical evidence on SMEs' access to credit in order to draw on different aspects with a view to uncovering occurrences and deriving meaningful inferences. Qualitative methods of analysis prevail. This was achieved by exploring entities through a survey-type strategy. Primary data was, therefore, underpinned by a survey-based method to enquire into those identified themes drawn by a case study-type strategy. A qualitative-type method selection through a case study strategy and the analysis of multiple sources was used to inductively determine the constraining elements in banks' liquidity provisions for SMEs. Primary data was, therefore, used to capture SMEs' perspectives and opinions of different aspects of lending finance from banks. The attempt is made to generate significant new data and to provide a comprehensive view of the complexities which surround the phenomenon being investigated to capture those dynamics that affect SMEs' access to credit. The enquiry, based on a case study strategy and underpinned by a survey on SMEs' perceptions of lending activities and the application of a Transactional Analysis theoretical model, provided a clear perspective on hindering aspects without

neglecting to consider banks' positions. A methodological approach based on a combination of qualitative and quantitative data was relevant in conveying meaningful information to evaluate occurrences and to determine the relevance of lending in the context of SMEs' access to credit topic.

### 6.2.3 Contribution to policy

The analysis of multiple sources and triangulation through different coding applications highlighted possible gaps in SMEs' access to credit activities and led to the suggestion of possible contributory propositions for policy and the derived implications for practice.

The propositions made are complementary to the European Union schemes designed to facilitate lending activities to include loan-type financing. The suggestions attempt to enhance lending to SMEs by addressing those recognised obstacles which negatively affect banks' liquidity allocation and create conditions for credit tightening and rigour over information requirements to feed into the assessment process.

There was an attempt to address opacity, asymmetry and risk as critical aspects recognised by the literature and concurring with this research's findings. Proposed models endeavour to provide useful tools to innovate the cooperative banking system and to enhance local lending activities through a focus on a relationship lending approach to address hindering aspects in SME lending. Furthermore, there has been a factual attempt to provide an instrument to combine both qualitative and quantitative types of information to address the risk element as this distresses liquidity availability and distribution. Furthermore, there has been an attempt to impose control over the total cost of credit as this might impact on applications for lending. The aim was to place an emphasis on customer relationship management (CRM) practices with a view to improving services. Furthermore, the view was to address banks' assessment of risk for credit distribution, to improve client retention by generating investments. The alignment of possible practices is a determinant aspect of SMEs' lifecycles and social development towards national growth and wealth.

## 6.3 Problems and flaws

Research on lending activities, based on a phenomenological paradigm or interpretative stance to determine inductively constraining elements in SMEs' access to credit, demanded comparable information. However, this did, at times, represent a problem. To address the research objective, an overview, based on a comparison of countries, to include Italy, the United Kingdom and Germany was, at times, found relevant. As the research unfolded, the problem of gathering comparative data became clear.

Countries have different ways of providing and analysing information in terms of timings, codification and typology. Surprisingly, a data search, related to the analysed periods, evidenced that surveys on SMEs' access to credit conducted by the European Commission did not include the United Kingdom due to its non-participation in the monetary union. This placed a limit on comparisons as national surveys and analytical reviews did not cover all of the aspects or covered different aspects. This required a shift in the comparative data choice to provide meaningful results.

Another point of observation was the in-depth coverage of survey responses by the European Commission on SMEs' access to credit. These were consistent for the periods immediately after the 2008 financial crisis. A reduced format was, however, proposed in the following years which were considered. It would have been relevant to understand trends and perceptions exhaustively in these periods to gather a more comprehensive perspective on the possible financial consequences of the crisis regarding SMEs' access to credit.

European Union standardisation of economic and methodological approaches for data collection and analysis might be a way forward for comparative studies to allow the most effective longitudinal investigations.

Another problem was represented by the collection of primary data underpinned by a descriptive-type survey. Questions were constructed on the basis of the conceptual framework deriving the literature review. Indeed, as exemplified by this research, the main country to focus on was Italy. In particular, the focus was on the Venetian region due to its high number of districts and their contribution to added value and labour together with its high SME presence, representative of all

sectors. The problems faced during the research included finding SME listings to use for survey distribution. In some cases, for example Italy, although lists were available, the cost of accessing this type of information was a constraining factor. Contacts were sought within both national and European Union authorities for access to listings or websites. This, however, had little success. The Venetian European Union authority did however offer a local meaningful contact by releasing the survey to a listing. This was successful and provided meaningful results. Other surveys in Abruzzo and Hampshire in the United Kingdom were possible only through a snowballing technique. However, this proved to be a less effective way of obtaining responses. Responses were, however, useful in validating the Venetian survey results and in contributing to the overall outcome.

Those who participated in the survey offered interesting points of reflection on the topic and considered the themes very important for business activities. Indeed, the themes on which the survey questions were focused aimed at inductively uncovering embedded elements in an attempt to deploy possible solutions. Therefore, although there was a problem regarding survey distribution, the outcome did provide meaningful responses to add to knowledge. The following section underlines further areas of study that might be considered.

## 6.4 Further areas of scholarship

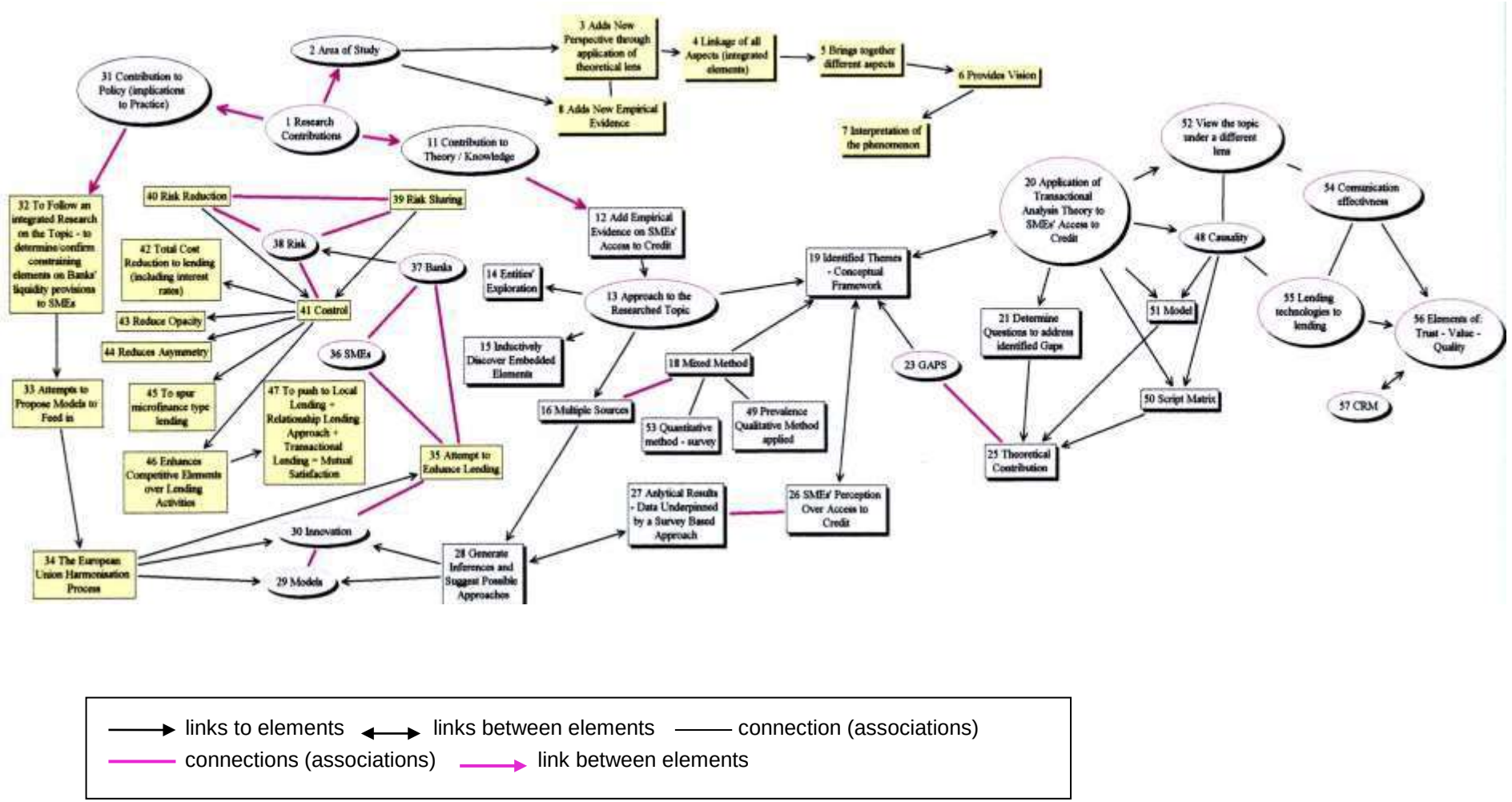
This research was an attempt to bring together pure research by adopting different analytical approaches and a different theoretical lens to view elements of lending from a different angle. Analytical strategies were based on case study-type strategies as the study was in a European Union context. In some cases, comparisons were felt to be relevant to achieve the proposed objectives. Empirical evidence was added through a descriptive survey to inductively uncover or validate embedded influencing aspects.

The research aimed to focus on SMEs as a sector which is recognised by scholars and political entities as contributing to national wealth. It is beyond any doubt that the ‘credit crunch’ brought about by the recession created a financing gap wherein exogenous elements have led to economic repercussions in terms of labour, added value and turnover contribution. SMEs have been affected by the liquidity deficit with detrimental effects on their numbers and on their ability to compete,

innovate and grow. However, it is felt that a lot could be done, in research terms, to further contribute to this research topic. As Leigh Sear at the Institute for Small Businesses and Entrepreneurship conference (ISBE, 2013) highlighted in his concluding speech, it is necessary to ‘develop a shared understanding’ of ‘connected semantic domains’.

Research based predominantly on qualitative analytical strategies adds to this vision and observation. Essentially, academic research adds to knowledge with a view to understanding the ‘world’ and ‘what is happening’. (Leigh Sear, 2013) Research should not only aim at adding knowledge; it needs to be linked to policy to create ‘shared understanding’ and meaningful contributions beyond pure academic studies to include business communities and ‘policy and practitioners’. Literature evidences that synergic activities between actors can lead to growth and wealth. (see Porter, 1990) In this respect, banks are recognised as principal actors in business financing. It is clear that the financial system needs to change its focus to recognise banks as a social resource able to create wealth and not just businesses in their own rights. It is believed that comparative analysis through cross-country methods should be further carried out to include other countries in a continuing process of evaluation. The time factor has prevented geographical expansion. Furthermore, the survey structured for the purpose of this research might be updated to consider other countries and factors, to uncover additional possible embedded aspects in order to further add to knowledge. Those two aspects together would allow a further understanding of the extent and of exogenous elements’ effect on SMEs’ access to credit as the economy evolves.

**Figure 85: Research contribution**



# Appendices

# Appendix A **Considered representative scholarly work**

| **Area of research: Literature review *** | | |
|---|---|---|
| **Elements** | **Key reviewed aspects** | **Scholars – representative scholarly work** |
| **Constraints** | * Bank Market Power<br>* Information Hypothesis<br>* Information Asymmetry<br>* Risk<br>* Opacity (creditworthiness – information quality)<br>* Size/ sector/age<br>* Innovation<br>* Interest Rates<br>* Collateral as guarantee<br>* Bargaining power<br>* Adverse Selection | Beck et al., 2005; Wang, 2016; Ayyagari et al., 2008; Beck and Demirguc-Kunt, 2006; Ruis et al., 2009; Deakins at al., 2008; Uchida et al., 2012; Bonini et al., 2016; Ryan et al., 2014; Carbò-Valverde et al., 2006; Fungacova et al., 2017; Hainz et al., 2013; Rayan, 1995; Petersen and Rayan, 1995; Beck et al., 2004; Mac an Bhaird et al., 2016; Love and Martinez Peria, 2012; Duarte et al., 2017; Manove et al., 2001; Boot, 2000; Onu and Uesugi, 2009; Dell'Ariccia and Marquez, 2006; Mercieca, 2009; Deakins et al., 2009; Coluzzi et al., 2009; Ferrando and Griesshaber, 2011; Arraiz et al.; 2014; Kuntchev et al., 2013; Atzeni and Piga, 2017; Cenni et al., 2015; Lee et al., 2015; Pellegrina et al., 2017; Hyytinen and Pajarinen, 2008; Beck and de la Torre, 2007; Berger et al., 2009; Baas and Schrooten, 2006; Berger and Udell,1998; Kirchenmann, 2016 |
| **Lending Technologies**<br>**1 -Relationship Lending**<br>**2 - Transactional Lending** | *Information Asymmetry<br>*Opacity<br>*Risk<br>*Collateral as guarantee<br>*Interest rates<br>*Adverse Selection<br>*Multi-banking<br>* Bargaining Power | Beck et al., 2008; Debrassi Parandi, 2006; Petersen, 2004; Bongini et al., 2009; Udell, 2008; Bartoli et al., 2013a; Fredriksson and Moro, 2014; Levine, 2002; Udell, 2008; Stein, 2002; de la Torre et al., 2010; Udell, 2006; Berger and Black, 2011; Beck et al., 2008; Mercieca et al., 2009; Boot, 2000; Berger and Udell, 2002; Ongena and Smith, 2001; Petersen and Rajan, 2002; Elsas, 2005; Payne, 2005; Kersten et al., 2017; Kane and Malkiel, 1965; Degryse and Van Cayseele, 2000; Debrassi Prandi, 2006; Boot et al., 1991; Roberts, 2015; Berger and Udell, 1995; Detragianche et al., 2000; Kysucky and Norden, 2014; Cenni et al., 2015; Kirschenmann, 2016; Milani, 2014; Sharpe, 1990; Hernendez-Canovas |

| | | |
|---|---|---|
| | | and Martinez-Solano, 2010; Bhattacharya and Thalor, 1993; Cotugno et al., 2013; Cole, 1998; Angelini et al., 2013; Rajan, 1992; Jimenez and Saurina, 2004; Voordeckers and Steijvers, 2006; Bolton and Scharfstein, 1996; Hauswald and Marquez, 2000; Berger et al., 2009; Boot and Thakor, 2000; Bharath et al., 2007; Mohr et al., 1996; Retap et al., 2016; Galloui, 1997; Comeig et al., 2015; Moro et al., 2015; Bonini et al., 2016; Baas and Schrooten, 2006; Moro, 2014; Bester, 1987; Berger and Udell, 1990; Harhoff and Korting, 1998; Behr et al., 2011; Boot and Thakor, 1994; Petersen and Rajan, 1994; Bolton et al., 2013; Beck et al., 2014; Berger and Udell, 2006; Alessandrini et al., 2009; Petersen and Rajan, 2002; Roberts, 2015; Berger and Udell, 1995; Elsas, 2005; De Young et al., 2008 |
| **Customer Value and Information Management** | Value customer receives<br>Value organization receives<br>(organizational objective vs customer satisfaction) | Payne, 2005; Payne and Frow, 2005a; Reichheld and Earl Sasser, 1990; Kother, 1994; Retap et al., 2016; Xu and Walton, 2005; Payne and Frow, 2005b |
| **Distance/Proximity** | * Opacity<br>* Risk<br>* Interest Rates<br>* Adverse Selection<br>* Bargaining power | Solvell, 2008; Krygman, 1991; Solvell, 2008; Porter, 2008; Sforzi and Lorenzini, 2002; Mytelka and Fainelli, 2000; Knorringa and Meyer-Stamer, 1998; Boja, 2011; Life, 2009; Markusen, 1996; Porter, 1990; Solvell et al, 2003; Angelinini et al., 1998; Reuttner and Glass, 2011; Everett et al., 2010; DTI, 2002; Hasan et al., 2017; Lindqvist et al., 2013; Becattini et al, 2009; Berger et al., 2015; Hakenes et al., 2014; Berger et al., 2008; Agarwal and Hauswald, 2010; Cotugno et al., 2013; Alessandrini et al., 2009; Milani, 2014; De Young et al., 2008; Duarte et al., 2017; Stein, 2002; Bongini et al., 200; Boot, 2000; Berger and Udell, 2002; Petersen and Rajan, 2002; Ughetto, 2006; Giannetti, 2012; Bartoli et al., 2013a; Presbitero and Zazzaro, 2011; Boot and Thakor, 2000; Dell'Ariccia and Marquez, 2004; Rajan, 1992; Petersen and Rajan, 1995; Solvell, 2008 |
| *** Search tools: Google Scholar, Science Direct, Wiley, bibliography on journal articles,<br>University Library through jstor, Delphis** | | |

| | |
|---|---|
| *** Initial Keywords used for search: contracting in smes lending, smes access to credit,<br>smes access to finance, bank lending to smes, smes financing, smes lending** | |
| **Theoretical Lens – Transactional Analysis*** | |
| **Key Aspects** | **Scholars and representative scholarly work** |
| **Transactional Analysis –<br>the communication to draw behaviour / reaction /response<br>First step to which other models are developed<br>Elements considered in this research: strokes and scripts (components of the stimuli and response of the communication pattern)** | Scholar: Eric Berne<br><br>(Berne, 2016a; Berne, 2016b; Booth, 2005; Williams and Williams, 1980 and Hollins Martin, 2011; Stewart and Joines, 2012; Harris and Harris, 1995 and Harris, 1995; Institute of Development Transactional Analysis, 2014; Kececi and Tasocak, 2009; Steiner, 2003; Steiner, 2000; Stewart, 1996 |
| **The OK Corral Model<br>'I am ok you are ok' to indicate life positions<br>Concept of Okness<br>It represents a decisional model.** | Scholars: Ernst, Steiner and Berne<br><br>(Mountain and Davidson, 2015; Mountain Associates, no date; Stewart and Joines, 2012; Harris and Harris, 1995 and Harris, 1995; Institute of Development Transactional Analysis, 2014) |
| **Ok Mode Model – effectiveness and efficiency of communication** | Scholar: Mountain and Davidson<br><br>(Mountain and Davidson, 2015; Mountain Associates, no date; Mountain, 2017) |
| **Contracts vs Psychological Contracting** | English, 2005; Stummer, 2002; Rousseau, 1990; Schmid, 2008; |
| ***Search tools: Google Scholar, Science Direct, Wiley, bibliography on journal articles, University Library through jstor, Delphis** | |
| ***Initial main Keywords used for search: contracting in transactional analysis, transactional analysis, transactional analysis in contracting, psychological contract theory, transactional analysis, smes access to credit and transactional analysis, transactional analysis in smes lending, transactional analysis in smes access to credit; transactional analysis and credit; transactional analysis and financing** | |

# Appendix B **Italy and the United Kingdom - Context**

This appendix portrays in more depth the Italian business stance in the context of the analysis of structure and financial provision to small and medium-sized businesses. It offers a brief synopsis of the main characteristics to create a better understanding of the Italian business structure prior to providing primary data results.

The Italian economy is characterised by a structure based on micro, small and medium-sized enterprises representing 99.9% of total businesses, of which 99.4% of total businesses are micro and small-sized sector firms (see European Commission, 2014a pg.2 and ISTAT, 2014 pg.44). According to the ISTAT (2014, pg.44), these types of firms' employ '2/3 of the population' and contribute '51.9% to value added'. On a comparative level, the Italian economy is scarcely represented by large businesses, with a rate of 3 thousand balanced against 6 thousand for the United Kingdom and 9 thousand for Germany. Furthermore, the European Commission (2014a) reports that Italy, if compared to other European countries, is characterised by a prevalence of manufacturing and service-type businesses. The value added based on labour value indicates three main segments represented by the industry, construction and services. Industry is the most representative with a higher significance for medium-sized businesses. Geographically, the industry sector distribution is most consistent if compared to other segments. Table B1 provides a clear indication of the above-described trends.

**Table B1: Value added related to labour and geographic distribution by major representatives of main sectors**

| | Labour (SMEs & Large Entities Breakdown) | | | | | Geographic Distribution | | | |
|---|---|---|---|---|---|---|---|---|---|
| Sectors | *0-9 | *10-19 | *20-49 | *50-249 | *250 & > | North West | North East | Centre | South |
| Industry | 29.1 | 42.0 | 53.8 | 69.5 | 90.5 | 64.4 | 59.7 | 55.7 | 48.6 |
| Construction | 28.7 | 38.4 | 41.0 | 57.8 | 85.7 | 39.7 | 37.3 | 30.7 | 31.7 |
| Services | 29.7 | 40.1 | 43.1 | 49.9 | 61.1 | 45.6 | 38.3 | 42.6 | 31.5 |
| Total | 29.5 | 40.5 | 47.3 | 59.1 | 71.3 | 50.4 | 45.0 | 44.3 | 34.9 |

Source: ISTAT, 2014 pg.58

A census breakdown provides a further analysis of industry and service sectors by regional segmentation. The Northern regions are mainly representative. The Lombardia region is the first in ranking for both ‘number of local units’ and ‘number of employees’. The Lombardia region is shortly followed by the Venetian one (see ISTAT, 2012 pg. 4). Table B2 illustrates regional breakdown.

**Table B2: Regional breakdown by ‘local units’ and ‘employment level’**

| Regions | Number of Local Units | Number of Employees |
|---|---|---|
| **Northern Regions** | | |
| Piemonte | 366,976 | 1,354,444 |
| Valle d’Aosta | 12,773 | 42,324 |
| Liguria | 139,684 | 458,897 |
| Lombardia | 883,425 | 3,496,393 |
| Trentino Alto Adige | 90,980 | 362,303 |
| Veneto (*) | 437,853 | 1,667,825 |
| Friuli- Venezia Giulia | 95,341 | 376,682 |
| Emilia-Romagna | 400,656 | 1,515,059 |
| **Central Regions** | | |
| Toscana | 356,687 | 1,153,994 |
| Umbria | 74,886 | 249,162 |
| Marche | 141,706 | 485,185 |
| Lazio | 454,180 | 1,544,224 |

Continued on next page

| Regions | Number of Local Units | Number of Employees |
|---|---|---|
| **Southern Regions & Isles** | | |
| Abruzzo (*) | 109,018 | 340,815 |
| Molise | 23,075 | 62,802 |
| Campania | 360,061 | 1,015,950 |
| Puglia | 267,986 | 771,425 |
| Basilicata | 37,759 | 109,939 |
| Calabria | 117,006 | 301,427 |
| Sicilia | 289,464 | 790,753 |
| Sardegna | 116,340 | 324,483 |
| Total | 4,775,856 | 16,424,086 |
| (*) Veneto is highly representative whilst Abruzzo has one of the lowest levels. Rationale on sample selection is more fully explained in the methodological section of this chapter. | | |
| Reference period: 2011 | | |

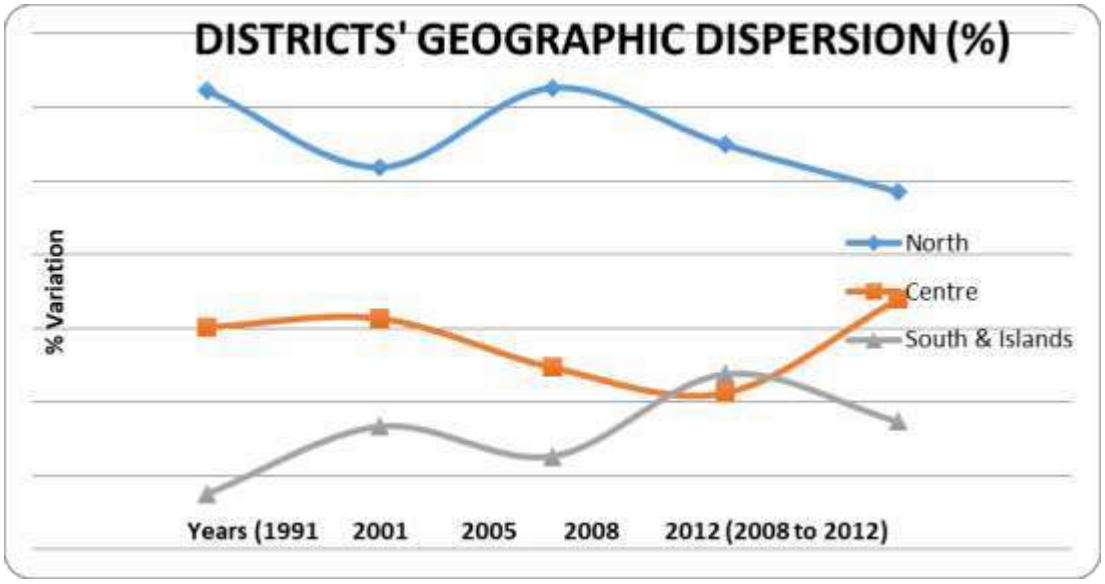
Source: Abstracted from ISTAT, 2012 pg. 4

Italy is characterised by a structure based on ‘districts’ which are regulated by national laws. The part of the research on local lending (Chapter Six) of this thesis approaches this theme in the context of ‘local banking’, providing a review and discussion on the topic. However, to better contextualise the survey analysis section to follow, a brief synopsis is therein outlined.

As already illustrated in Chapter Three of this study, the Italian sector-based economy is predominantly represented by the ‘apparel-fashion industry’, the ‘automation-mechanical, ‘furnishing’ and the ‘food-agro-industry-fishing’, also described as the ‘4A’. These segments are also the principal representative of the districts’ structure (Taranzano, 2013).

Districts are well-structured and well-established entities with local and national interlinked developments. However these types of agglomerates, with the exception of the central regions, have faced a fall in their numbers, in both the northern and southern regions, as illustrated in Figure B1.

**Figure B1: Geographical districts' dispersion by percentage value**




Source: Carminati, 2006, p.41; ISTAT, 2001, p.10; Istituto per la Promozione Industriale, 2008 p.5; Palumbo, 2013, p.123

An analytical illustration, indicated by Table B3, shows a high level in the number of districts within the food segment and the apparel system. The apparel and metal-mechanic sectors are the segments mainly representative in terms of the number of businesses, with 3995 and 3033 entities, respectively.

**Table B3: Districts within Clusters**

| **Number of Businesses as Districts within the Clusters (2008-2012)*** | | |
|---|---|---|
| **Districts** | Number of districts | Number of businesses |
| **Food** | **43** | 1327 |
| **Metal-mechanic** | 20 | **3033** |
| **System House** | 28 | 1996 |
| **Apparel system** | **37** | **3995** |
| **Other (exp: plastic, paper, graphic)** | 6 | 797 |
| **Technological centre** | 22 | 2477 |
| ***** Elaboration data from De Michele et al., 2013 pg.130-136; Palumbo and Fumagalli, 2013 pg.133 and Palumbo, 2013 pg.123<br>* Detailed mapping illustrating districts is shown in Appendix A and Appendix B in the Appendices section at the end**.** | | |

Source: De Michele et al., 2013 pg.130-131

These two Italian regions are selected as the sample for survey distribution and are hereby illustrated to provide an overview of the principal elements.

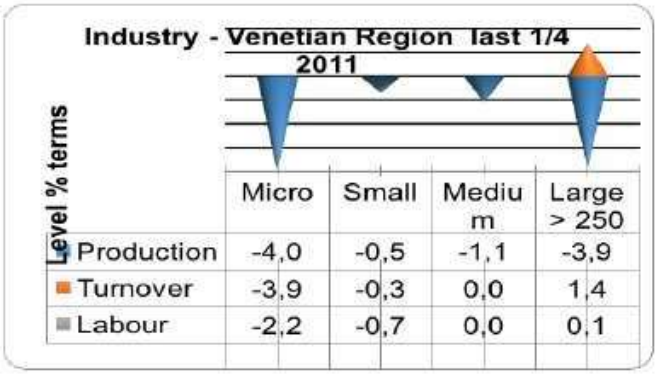
**Significant elements' overview of the Venetian and the Abruzzo regions:**

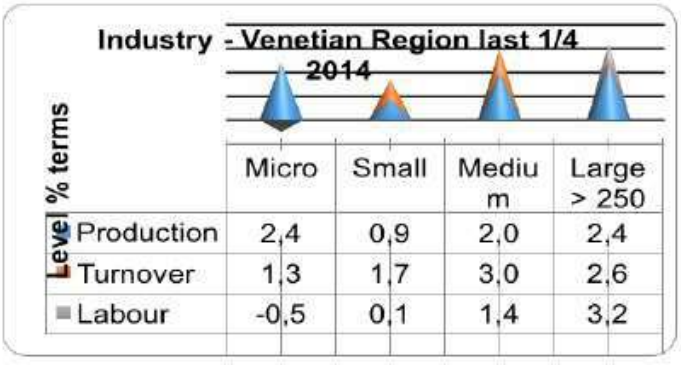
**The Venetian region**

The Venetian region has faced a flexion in the number of units between 2008 and 2014; a trend that, although less consistently, is persisting. In 2008 the total registered units were 423,793 against a 2014 level of 420,937 (ISTAT, 2015). The negative trend persisted, causing a total fall in units of 2.4% in 2013 for small firms and artisan entities. This drop has influenced two main sectors, manufacturing by 2.6% and the construction industry by 3.6%.

The Venetian region's economic trends portray quite a diverse picture of industry, construction, commerce and services. The industry sector trend indicates a recovery since a flexion in 2011 in terms of production, turnover and labour levels, as shown in Table B4.

**Table B4: Venetian Region: Industry Production, Turnover and Labour (Source: ISTAT, 2015)**



Turnover has also been negatively affected by a total of 3.1% in 2013. However, this is a positive trend if compared to the total drop of 16.7% in the 2012 period. The sector contributing most to the decrease is reported to be the construction industry by 3.4%. The manufacturing production also registered a fall by 2.5%.

A relevant feature is the recognition that bank institutions are the main providers of SMEs' financing. It is, however, reported to be a 'credit crunch' situation whereby banks have effectively decreased the monetary supply to the production system. Within the Venetian region the industry sector has been negatively affected by a fall of about 4.7% between 2012 and 2013 against a national level of 6.9%. Small businesses have suffered mostly from the shortfall in financing with a reported variation of 3.8% between 2012 and 2013 (Unioncamere Veneto, 2014).

The Venetian region is characterised by 22 districts. The most significant of these is represented by the furniture, marble, ceramics, porcelain, glass, leather artefacts and fishing segments (Unioncamere, 2014). A relevant aspect is the regional commitment towards better regulation of districts to favour networks and aggregation development. This was endorsed by the regional legislation of 2014 as the legislation Bur n. 57, 06 June 2014 (Regione Veneto, 2014). This legislation sets out the principles by which a district can be recognised as such and outlines interventions in relation to financial funding. The Venetian region describes districts as "...a local productive system, within a specified regional territory, characterised by a high concentration of artisans and industrial manufacturing firms, with a prevalence of small and medium-sized businesses which operate in specific productions' supply chains or contribute to the regional economy by being correlated to supply chains" (Regione Veneto, 2014). Another important element is the definition of innovative interrelated systems, whereby it is highlighted that the links between regional actors, such as recognised institutions (either public or private), should collaborate to develop common projects. Regional funding is provided to innovative clusters through tender notices, where qualitative and quantitative data forms the criteria for selection together with the valuation of projects' economic feasibility (Regione Veneto, 2014). The significance that the Venetian region places on clusters was one important element that weighted the decision to consider this area as a relevant focus for survey distribution. An element being considered was that the regional legislation over districts, as

shown, to the best of the researcher's knowledge does not take into consideration links to bank institutions, recognised as significant actors in businesses' lifecycle.

**The Abruzzo region**

The Abruzzo region was negatively affected by a second face of the recession in 2010, brought about by low internal consumption. This contributed to a decline in the performance of all sectors. In fact, in 2013 it is reported that all sectors were influenced by the economic decline; manufacturing and construction were the most affected (Bazzucchi, 2013). In value added terms, industry contribution to the region declined between 2007 and 2013 by a value of €1,371 million against a total of €2,1 75, which also includes agriculture, construction and service sectors (Bazzucchi, 2013 pg.11). Furthermore, the economic downturn is characterised by a total labour decline of about 12% and a direct influence on consumption ability. The downsizing on business of about 1,600 units is another indication of an economic depression (Bazzucchi, 2013). Between 2011 and 2012, the main sectors affected by negative trends were the agriculture, manufacturing and construction industries with a deteriorating stock variation of 2.8%, 2.4% and 2.7% respectively (Cresa, 2012 pg.25). In 2013 a further depletion in agriculture was reported with a variation between 2012 and 2013 of minus 3.6%. For the same period negative trends were also reported in the manufacturing and construction industries of 1.0% and 1.4% respectively (Bazzucchi, 2013 pg.18). The legislation over districts is referred to the 1991 legislation and the 1999 follow-up, as better exemplified in Chapter Three of this research. As already illustrated in the methodological and data strategy section of this chapter, in the Abruzzo region there are five districts. These are identified as the 'Piana del Cavaliere', 'Maiella', 'Vastese', 'Vibrana-Tordino-Vomano' and the agro-industry 'Marsica' (Cordis, 2012). Figure B2 indicates the types of sectors that are represented by these districts to extend throughout the territory.

**Figure B2: The Abruzzo districts' outline**

| Marsica Agro-Industry | Piana del Cavaliere | Vibrana | Vastese | Maiella |
|---|---|---|---|---|
| **1** Agro-food<br>**2** Electrical and optical machinery & equipment<br>**3** Mechanical machinery & equipment<br>**4** Metal products<br>**5** Paper<br>**6** Printing & publishing | **1** Electronics<br>**2** Desktop publishing<br>**3** Optical equipment | **1** Clothing<br>**2** Leather goods<br>**3** Furniture | **1** Glass<br>**2** Vehicles<br>**3** Electronic equipment | **1** Clothing<br>**2** Leather & leather goods<br>**3** Wood |

Source: Cordis, 2012

The following sections provide summarised characteristics of the general United Kingdom business structure. A brief emphasis on the South East region follows.

## A brief synopsis of the United Kingdom (UK)'s business structure

The UK economy is driven by three main sectors represented by services, wholesale and retail and manufacturing. The manufacturing sector in 2009 was third in ranking, contributing to the economy in value added terms by £140 billion and to employment by 2.6 million (BIS, 2010c pg.1, 2 and 8).

The Department for Business Innovation & Skills (BIS, 2010b, pg. v) suggests that "The manufacturing sector is diverse, comprising a wide-ranging number of different industries, technologies and activities." The whole sector accounts for 11% of the economy and occupies second place in relation to the national GDP. The country is specialised in the "food and drink, aerospace, pharmaceuticals, electronics and automotive" sectors. However, changes are occurring following the development of new areas such as "low carbon, industrial biotechnology, nano-technology, digital and advanced materials such as composites". The BIS (2010b pg.1) provides a list of main industry contributors, citing among the main ones the manufacturing segments food, drinks, textiles, paper, rubber, chemicals, electrical equipment, optical equipment and machinery.

PriceWaterhouseCoopers (2009, pg 4-5) reported a manufacturing segment in 2007 of “electrical and optical equipment”, “recycling, rubber and plastic products” and “machinery and equipment”. The report also indicates ‘sub-sectors’ within the manufacturing industry to include the “automotive, aerospace and defence, oil and gas refining, chemicals, construction and building products, packaging and clean technologies”. In 2009 the evidence suggests a manufacturing trend shift between the rubber and recycling segments and a growth in chemical and metal products, publishing and printing sectors (BIS 2010b and BIS 2010c). According to the BIS (2010b) and to Shaw (2011), the number of companies in the UK is in the region of 4.8 million, of which about 300 thousand are engaged in the manufacturing sector. A peculiarity of the UK manufacturing industry is represented by the combination of production and service provisions as these two factors are increasingly becoming intertwined. In fact, companies such as “Rolls-Royce” have learned to maximise profits and gain competitive advantage by providing services to enable an optimisation of product efficiency and effectiveness for consumers (PriceWaterhouseCoopers 2009, pg 7). This change is also underlined by the BIS (2010b), whereby it is highlighted that producers tend to specialise in the service sector linked to production, thus adopting a strategy of business differentiation that is defined as “servitisation of manufacturing”. An interesting aspect considered by Hardie and Banks (2014) is the influence that both capital and labour have on output. The United Kingdom labour levels remained quite steady between 2008 and 2013. In contrast, labour levels in manufacturing decreased between 2008 and 2013 to reflect output. Furthermore, labour productivity moved from 25% in 1975 to 8% in 2014 (Hardie and Banks, 2014). This aspect is relevant to this research argument which espouses the philosophy that funding is a relevant element to businesses’ growth and development and therefore an essential part of a firm’s lifecycle. The manufacturing sector is characterised by interlinking activities whereby outsourcing or sub-contracting, both as output and input, become an integral part of the value chain (BIS, 2010b and Hardie and Banks, 2014).

In this respect, it is interesting that the BIS (2010b, pg.4) analysis reports that chemicals and rubber and plastic products contribute to other types of manufacturing segments’ input by 36.2% and 33.9% respectively, whilst pharmaceuticals, rubber and plastic products, non-metallic mineral products and

electrical and optical equipment contribute to other sectors by 36.3 %, 33.8%, 57,7% and 24,5%.

In 2014 small entities accounted for 5.2 million businesses contributing to employment levels by 48% share. For the same period, medium-sized businesses accounted for 31 thousand and contributed to employment by 3.1 million. Small and medium-sized entities produced turnover of £1.2 trillion and £480 billion respectively, or a combined total of £1.6 trillion (White, 2014 pg.1-2).

The major segments are represented by the construction industry, professionals and scientific, followed by the wholesale and retail segment. Table B5 provides an illustration of the breakdown by sector for the small and medium-sized segment.

**Table B5: Sectors' breakdown**

| **Breakdown Sectors by % value – Small and medium-sized businesses** | |
|---|---|
| Agriculture, Forestry and Fishing | 3 |
| Mining and Quarrying and Utilities | 1 |
| Manufacturing | 5 |
| **Construction** | **18** |
| **Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles** | **10** |
| Transport and Storage | 5 |
| Accommodation and Food Service Activities | 3 |
| Information and Communication | 6 |
| Financial and Insurance Activities | 2 |
| Real Estate Activities | 2 |
| **Professional, Scientific and Technical Activities** | **15** |
| Administrative and Support Service | 8 |
| Education | 5 |
| Human Health and Social Work Activities | 6 |
| Arts, Entertainment and Recreation | 4 |
| Other Service Activities | 6 |

Source: Adapted from White, 2014 pg.12

In regional terms, SMEs are mainly located in the South East region, providing a high contribution to employment and second ranking in terms of turnover. Table B6 provides a full representation of SME units and their contribution to national wealth in terms of turnover and labour levels.

**Table B6: Geographical SME units and labour and turnover contribution**

| Regions | SME Units | Total Units | Labour (/1,000) | | Turnover | |
|---|---|---|---|---|---|---|
| | | | SMEs | Total | SMEs | Total |
| North East | 139,550 | 139,750 | 423 | 673 | 36,256 | 69,001 |
| North West | 481,630 | 482,220 | 1,410 | 2,153 | 146,749 | 242,234 |
| Yorkshire & The Humber | 345,125 | 345,565 | 1,053 | 1,868 | 102,851 | 191,148 |
| East Midlands | 306,985 | 307,335 | 952 | 1,654 | 95,139 | 191,052 |
| West Midlands | 362,900 | 363,375 | 1,108 | 1,839 | 111,807 | 209,118 |
| East of England | 501,090 | 501,655 | 1,346 | 2,488 | 137,511 | 336,146 |
| London | 836,400 | 837,605 | 2,060 | 4,122 | 448,805 | 987,880 |
| **South East** | **742,680** | 743,620 | **2,024** | 3,359 | 226,628 | 520,925 |
| South West | 464,350 | 464,735 | 1,264 | 1,745 | 101,055 | 166,641 |

Source: BIS, 2011

As in Italy, the United Kingdom also has a structure based on a system of districts. This element has become a relevant subject of discussion within institutions' agenda. In the UK, the government has in fact enhanced the relevance of clusters in the 'White Paper' of 1998, setting out a basis of analysis and study. The Trends Business Research in 2001 conducted a first analysis and produced a recognised classification of UK regional clusters for the Department of Trade and Industry (Miller et al., 2001). Local factors should be at the basis of considering how policies can affect national development. As a result of this regional development, clusters' policy is demanded to the Regional Development Agencies (RDA), established following the 1998 'Regional Development Agencies Act' (DTI, 2007). In the UK there are 9 Regional Development Agencies plus three to account for Northern Ireland, Wales and Scotland (DTI, 2007). These agencies have however been abolished since 2012 and replaced by the Local Enterprise Parterniships (LEPs) in 2015. These are partnerships between local authorities and local businesses. The objective is to promote local economic developments. A network of local enterprises provides the potential for the sharing of knowledge and ideas. (Department for Business Innovation and Skills, 2015).

According to a study conducted by Miller et al. (2001), in the UK there are nine main regional clusters, as already illustrated in the preceding sections. In terms of cluster representation at national level, the South East, with 15.45% is second in

ranking following London with 19.45%. Again, in terms of employment at regional and national level the South East is the second representative with 0.55% and 13.9% respectively. London is first. Table B7 exemplifies this.

**Table B7: UK cluster representation and contribution in labour terms**

| Cluster UK by Region | Clusters by industry-% (mean) representation of UK | Labour | |
|---|---|---|---|
| | | % UK | % (mean) Regional Representation |
| East Midlands | 14.10 | 6.70 | 0.42 |
| **London** | 19.45 | 15.20 | 0.73 |
| Eastern | 8.60 | 8.60 | 0.57 |
| North East | 5.38 | 3.80 | 0.47 |
| North West | 12.48 | 11.0 | 0.39 |
| **South East** | 15.45 | 13.9 | 0.55 |
| South West | 8.19 | 8.10 | 0.55 |
| West Midlands | 15.76 | 9.0 | 0.43 |
| Yorkshire & Humberside | 9.56 | 8.20 | 0.39 |

Source: Abstracted from Miller et al., 2001

The South East region being selected as the sample for survey distribution is hereby illustrated to provide an overview of the principal elements.

**Significant elements' overview of the South East region**

The South East is the region most representative in terms of labour force with a 75% total level in 2013. To be underlined however, that the labour level was 77% before the 2008 financial crises. Main clusters are represented by industrial machinery, 'instrumentation', electronics, agriculture and pharmaceutical and biotechnology. Sectors included in the cluster classification are described as 'established', in terms of both national and international importance. The labour level is indicated as stable (Miller et al., 2001 pg.29,79). The South East England Development Agency (SEEDA, 2011 pg.4) stated that in 2010 within the region there were 55 districts distributed within the London area, East Sussex, Hampshire, Berkshire, Oxfordshire and Buckinghamshire. There are no other official institutional studies on clustering classifications for the United Kingdom or the South East region. In terms of gross value added, the region contributed about

15% in 2009. The main providers were represented by Berkshire, Oxfordshire and Buckinghamshire. The manufacturing sector share, in 2008, was of 10% if compared to the national level of 12%. It is reported that small entities found difficulties in accessing credit through banking institutions. A survey of South East businesses in 2011 highlighted that 24% of cases found a cost increase to finance an issue against the 2010 result of 18%. Also, 3% of small businesses were successful in credit applications compared to other sized firms. Although most businesses declared that they did not need finance, 13% indicated that they considered the cost of finance too excessive. Manufacturing was the sector that most considered financing too expensive. A very high percentage of businesses, however, indicated that access to both credit and costs was worsening. Furthermore, businesses indicated banks' unwillingness and costs to lending as the reasons for unsuccessful applications (SEEDA, 2011 and SEEDA, 2010). The following section provides the analytical results of primary data collection as a relevant source to either substantiate or confute secondary data results.

# Appendix C **Survey Questionnaire**

## Section 1. Sector

Question 1.1

What is the sector you operate in?

- MANUFACTURING (to include: chemicals & chemical products, computer, electronic & optical products, aerospace, biotechnology, pharmaceutical, food & drinks, textile & clothing, leather, furniture, footwear)
- AGRICULTURE and FARMING
- DISTRIBUTION SERVICES (including products packaging and labeling)
- DESIGN and RESEARCH (to include: aerospace, motor vehicles, biotechnology, chemicals & chemical products, computer, electronic & optical products, pharmaceutical, furniture, fashion industry, ceramics)
- CONSTRUCTION
- HEALTH and SOCIAL WORK
- HOTELS, RESTAURANTS, BARS, CATERING and LEASURE
- MINING, METALS and MINERALS
- RETAIL ESTATE, RENTING and BUSINESS ACTIVITIES
- TRANSPORT, STORAGE and COMMUNICATION
- WHOLESALE and RETAIL TRADE
- OTHER

**Question 1.1b**

Not all sectors are included, if your firm does not fall in any of the above descriptions please give a brief description here.

## Section 2. Firm Size

Question 2.1

What size of firm are you?

- Micro - Firm (less than 10 employees AND turnover up to € 2 millions or £ 1,707,000)
- Small (less than 50 employees AND turnover up to € 10 millions or £ 8,539,000)
- Medium (less than 250 employees AND turnover up to € 50 millions or £ 42,695,000)

## Section 3. Type of Finance

Question 3.1

What kind of finance do you rely on?

(can choose more than one option)

- [ ] Own Capital
- [ ] Self-generated from reserves
- [ ] Equity
- [ ] Microfinance (loans up to €25.000 or £21,347.50 as per European Union indication)
- [ ] Bank Loans (over €25.000 / £21,347.50)
- [ ] Overdrafts
- [ ] Credit Cards
- [ ] Leasing
- [ ] Factoring
- [ ] Commercial Credits
- [ ] Advances by Customers
- [ ] Subsidised Credits (provided by Governement funds or European Union funds)
- [ ] Asset Based Lending
- [ ] Invoice Discounting
- [ ] Advance Payments
- [ ] Others

**Question 3.1b**

Any other type finance? If yes, please specify.

Question 3.2

For which of the following, do you rely on the type(s) of finance as per question 1 of this section?

(both can be selected)

- [ ] Ordinary day to day activities (working capital)
- [ ] Long-term planning investment to innovate and grow

## Section 4. Access to Credit

Question 4.1

Do you rely on bank loans?

- ( ) Do currently
- ( ) Have done in the past
- ( ) Never applied for one

**Question 4.1b**

Through which institutions you have applied for loans?

(please give the indication only for the last loan application)

- ( ) Group or Big Banks (e.g. Lloyds TSB, HSBC etc)

- Cooperative Banks
- Local Bank (if any)
- Other

**Question 4.1c**

Why have you never applied for a bank loan?

(can choose more than one option)

- Do not require any liquidity
- Interest rates are too high
- Costs attached to credit (excluding interest rates) are too high
- Do not think I will get access to the loan because I do not have the required guarantee for a loan
- My creditworthiness record is considered inadequate for a loan by the bank

Question 4.2

How important do you think bank loans are to your firm?

- Very important
- Important
- Not important

Question 4.3

Do you think that for your firm access to credit is a problem?

- Yes it is a problem
- Sometime it is a problem
- Never been a problem
- Do not know

**Question 4.3b**

Briefly explain in what way access to credit represent a problem

Question 4.4

In your experience, what kind of information do banks require on loan applications and to what degree, for businesses your size?

(can choose more than one option)

| | | | | |
|---|---|---|---|---|
| Past financial records | ○ | ○ | ○ | ○ |
| Current financial records | ○ | ○ | ○ | ○ |
| Guarantees (including provision of collateral for loans) | ○ | ○ | ○ | ○ |
| Past creditworthiness evidences | ○ | ○ | ○ | ○ |
| Business plan | ○ | ○ | ○ | ○ |
| Specifics and descriptive plans/explanations for requiring a loan | ○ | ○ | ○ | ○ |

Question 4.5

Which of the following options best describe your opinion on bank's rigour towards loan applications for firms your size?

- They are rigorous
- Sometime they are rigorous
- They are not rigorous

**Question 4.5b**

What factors makes you think that banks are rigorous towards information requirements on loan application for firms your size?

(can choose more than one option)

- Require detailed past financial information
- Require detailed current financial information
- Require future financial planning
- Require information on the strategy for the business
- Require past creditworhiness evidences

## Section 5. Bank Relationship

Relationship in the survey is intended as long-term working liaison between a firm and a bank institution.

Question 5.1

Do you have a relationship with one or more than one bank?

- Yes
- No

**Question 5.1b**

How many banks do you have a relationship with?

(please specify just a number of relationships, no specification of which banks is required)

**Question 5.1c**

What is your opinion about the relationship/relationships?

- Very satisfied
- Satisfied
- Not satisfied

**Question 5.1d**

In your opinion in what measure each of the following aspects would be affected by a relationship banking?

(can provide your opinion on all the described options)

Cost to credit to loans (excluding interest rates)

Cost to credit to other type credits (not loans, excluding interest rates)
Choice of services provided
Degree of success on loan applications
Degree of success on other type credit applications (not loans)
Terms and considtions on loans
Terms and conditions on other type credits (not loans)
Interest rates applied to loans
Interest rates applied to other type credits (not loans)

**Question 5.1e**

Do you think a bank relationship would be beneficial to your firm?

- Very beneficial
- Beneficial
- Not beneficial

## Section 6. Specifics to Microfinance

Question 6.1

Have you ever applied for microfinance?

(loans up to € 25.000 or up to £ 21,347.50)

- Yes
- No

**Question 6.1b**

Where have you applied for microfinance?

(can choose more than one)

- Group or Big Banks (e.g. Lloyds TSB, HSBC etc)
- Local bank (if any)
- Cooperative bank
- Others

**Question 6.1c**

Why have you never applied for microfinance?

(can choose more than one)

- Never applied for loans
- Whenever applied for loans always over € 25.000 or over £ 21,347.50
- Costs too high (excluding interest rates)
- Interest rates too high

**Question 6.1d**

How did you find the application process to microfinance?

- Very easy
- Easy
- Difficult

**Question 6.1e**

For microfinance, how did you find the level of requirements towards guarantees and documentations?

- Very easy to provide
- Easy to provide
- Difficult to provide

## Section 7. General

Question 7.1

Are you aware that the European Union promotes the application of credit type loans (e.g. microfinance, loan guarantee facilities, loans for research and development projects) for small and medium sized firms through national banks?

- Yes
- No

**Question 7.1b**

Which of the following best describes your opinion on the accessibility of these credit type loans (e.g. microfinance, loan guarantee facilities, loans for research and development projects)?

- Easily accessible
- Not accessible
- Do not know how to access them

Question 7.2

Any opinion you might want to share on 'SMEs access to credit' that you think might be beneficial for the purpose of this study, it is very welcomed and appreciated.

Thank you so much for participating to this study.

# Appendix D **Lending Technologies – Context**

In the light of the analytical results on elements of credit availability and costs of credit exposed, medium-large banking institutions' approaches to SMEs' applications for financing. For those readers most interested on a synoptic view of approaches to lending to SMEs of Italy, the United Kingdom and Germany, this is proposed in Figures D3, D5 and D8 at the end of the section.

There is no clear definition of medium and large banks. The only indication which might be provided is the one offered by the European Central Bank (2012b). This illustrates these types of institutions through a correlation between total assets and consolidated assets at European Union level. It indicates the relationship value between those two factors as '0.5% and 0.005%' for medium institutions and over '0.5%' for larger institutions.

**Country study – Italy's lending to SMEs**

Italy is characterised by a high presence of small and medium-sized enterprises (SMEs) which account for a total of 99.9% of the market share, wherein there is a large presence of micro businesses. It is, however, highlighted that although the micro enterprises represent about 94% of the total SME segment, their growth rate is not vibrant. The Italian government is making efforts to create an environment to

enhance their development (ISTAT, 2011a and European Commission, 2011b and European Commission, 2014a). In the case of SMEs, the peculiarity of the system is that organisations have a propensity to use cash-flows for investment purposes rather than increasing the risk by injecting their own capital. Firms tend to retain 'own capital' as a form of guarantee for obtaining credits from financial institutions (Salza, 2004). Furthermore, it is evidenced that the dependency of SMEs on bank lending for ordinary day-to-day business activities limits their ability to invest. Financial institutions do not appear to provide long-term financing or types of services aimed at emphasising strategic planning development (Salza, 2004).

The Italian financial system is considered a bank-based system (Allen et al., 2005), whereby financial institutions have a tendency to assess credit primarily on the basis of relationship lending (see Berger and Udell, 2002; Berger and Udell,

2006; Dabrassi Prandi, 2006; Berger and Black, 2011 and de la Torre et al., 2010). The Italian banking sector is fully private with negligible public participation. The sector, since the 1990s, has undergone a transformation at organisational level due to the free movement of capital and the introduction of the “innovation of computer technology and telecommunications (TIC)” (see: Albareto et al., 2008 p.5 and Coletti, 2004). Indeed, the innovation process in the banking system affected businesses’ reorganisation, leading towards localisation and aggregation strategies and product differentiation. The process of aggregation resulted in a stronger banking presence with a decentralised operating system to increase both the ‘operational proximity’ and the ‘functional distance’ (Buscetta and Presbitero, 2008). The operational proximity is concerned with the distance between the institution and the client. The functional distance is related to the distance between the central office and local branches (Buscetta and Presbitero, 2008). Due to the distance between the central offices and the subsidiaries’ offices, discretionary decisions are delegated to local branches. This strategy requires directors’ rotations between branches to guarantee independence and to avoid biases over decisions. It is suggested that banks’ decisions regarding credit distribution have been affected by the banking sector’s renovation process and that the aggregations have interested not only major players within the sector but also small to medium-sized institutions (see Albareto et al., 2008; Albareto et al., 2010; Beretta and Del Prete, 2010). The Italian financial sector, represented by both commercial and cooperative banks, has gone through a consolidation and merging process, establishing a presence in the territory of five main groups, which are Intesa San Paolo SPA, Unicredit SPA, UBI Banca, Banca Popolare and Banca Monte dei Paschi di Siena (see Albareto et al., 2010; Beretta and Del Prete, 2010; Castelli et al., 2009; Coletti, 2004 and Presbitero, 2008). A relevant aspect of the cooperative banks, is the propensity for a strong relationship banking system, aiming at providing loan access for opaque businesses. However, a differentiation should be made between the Banche di Credito Cooperative Rurali (BCCs) and the Banche Popolari (BPs). The BCCs are governed by a central bank, called Iccrea, which represents the holding company. They have a decentralised system and are by nature ‘mutualistic’ as credit is mainly provided to and by their own members. Decisions over credit to SMEs are made, in some cases, at ‘board’ level. BPs represent one quarter of the banking sector; they are similar to commercial banks in their structure and independent status, with strong

relationship systems towards small and medium-sized firms, and they are 'non-mutualistic' (Tarantola, 2009; Albareto et al., 2008 and Coletti, 2004). For the purpose of the analysis proposed by this chapter, only commercial banks are considered. The study is based on a comparative analysis and it is therefore relevant to examine similar structures and internal decision controls. In fact, whilst Italy, as already highlighted in this research, has an established cooperative banking system, this segment is not highly representative of the United Kingdom and German's banking system.

The correlation between the banking sector, local businesses and institutions' structure and their internal strategies affects potential lending activities to SMEs (e.g. Albareto et al., 2010). In the case of Italy, the tendency, following the restructuring process, has been for smaller institutions to become integral parts of larger groups, whether commercial or cooperative entities, and to retain local identities and connections with the existing territory (see Albareto et al., 2008 and Albareto et al., 2010). An important aspect is the evidence that the high level of proximity to clients (e.g. Petersen and Rajan, 2002; Berger and Udell, 2002; Boot 2000) might be a cause for concern as the evaluation of risk and objectivity can be undermined (Tarantola, 2009). A study conducted by the Bank of Italy (2007) on a survey of over 300 institutions indicates that banks tend to address this issue by enacting a policy of local branch manager rotation to avoid biases, possible collusions (see Ferri, 1997 cited in Albareto et al., 2010; Albareto et al., 2008 and Berger and Udell, 2002) and objectivity deficiencies, although the size of the institution has an impact on reallocation intervals. In this context, however, the length of branch managers' tenure is an important element linked to the 'operational proximity' for establishing effective relationships with local creditors (Benvenuti et al., 2010 and Presbitero, 2008). The operating systems of both larger and smaller institutions mainly follow a decentralised approach to lending activities (e.g. Beck et al., 2008 and Stein, 2002), as local managements exercise discretion. A common feature is a strategy aimed at achieving a balance between incentives for lending activities and risk control. Institutions measure local management performance on the basis of three main factors. The first targets the growing level of lending activities and bad debt rates. The second targets 'portfolio' activities and profitability. The third focuses on the risk linked to 'portfolio' activities. The application of information technology (e.g. Petersen and Rajan, 2002 and Petersen, 2004) suggests an increase in local management delegation

authority in lending activities, due to cost reduction and control (see Albareto et al., 2008; Albareto et al., 2010 and Benvenuti et al., 2010).

The literature indicates that SME credit is dependent on relationship banking, which is interlinked to the institution's ability to enact efficient processes to gather relevant and feasible information. In this case there are elements of expertise and subjectivity to consider, together with the importance that institutions' structures have for the decisions endorsed by local branch managers, in lending activities to overcome issues linked to the 'agency problems' (Stein, 2002 and Berger and Udell, 2002; Cannari et al., 2010 and Albareto et al., 2010). An aspect related to banks' lending to SMEs that assumes relevance is the application of credit scoring techniques characterised by hard-type data, where 'qualitative' and soft-type data are transformed into 'hard' transferable information. It should, however, be noted that the transformation of soft-type information into transferable data increases costs, creates 'asymmetries' between head office and local branches and requires a high degree of expertise to avoid biases (see Stein, 2002; Petersen, 2004; Albareto et al., 2010). The 2007 Bank of Italy survey (see Albareto et al., 2010) indicates that banks have a tendency to use 'credit scoring systems' in the assessment of credit to associate soft type information from a relationship type approach and hard type data. In fact, the 'data' being considered tends to be a mix of information between 'hard' and 'soft' in an effort to use data that is objective to ensure control of risk and to avoid biases. This type of practice has been widely adopted since 2003, by all types of banks, but predominately by larger institutions, due to the advantage brought by cost absorption and resulting economies of scale. The credit scoring system is part of the transactional methodology and as such it is representative of a standardised integrated designed model or ranking system. The information considered in the ranking system by large/medium and small group banks is predominantly quantitative and it is best exemplified in Figures D1 and D2. It should be noted that, in already established relationships, large/medium banks view the issue of a relationship between the institution and the creditor as second in ranking following credit relations with the system. Smaller institutions also place as second the issue of a relationship following financial statements. Qualitative data is fifth in the scale for larger institutions, whilst it is fourth in ranking for smaller banks - part of groups (see Albereto et al., 2008 p.36 and Albereto et al., 2010 p.39). The situation, however, changes in the case of potential new clients. In this case, larger institutions consider financial statements

a priority and place credit assessments from third parties (“Central Credit Register or other Credit Bureau”) as second. Of the same view are banks that are part of smaller groups, which place both issues almost at the same level in the scale of importance. Qualitative aspects are, for both kinds of banks, fourth in the ranking. Collaterals assume importance mostly for banks that are part of smaller groups, whilst quantitative statistical data is more important for larger institutions (see Albareto et al., 2008 p.38 and Albareto et al., 2010 p.41). “The degree of flexibility in the use of credit scoring therefore varies, depending both on the characteristics of the procedures adopted and on their importance in lending decisions and customer relationships” (Albareto et al., 2010 p.15).

**Figure D1: The ranking of lending decisions - large and medium-sized banks**

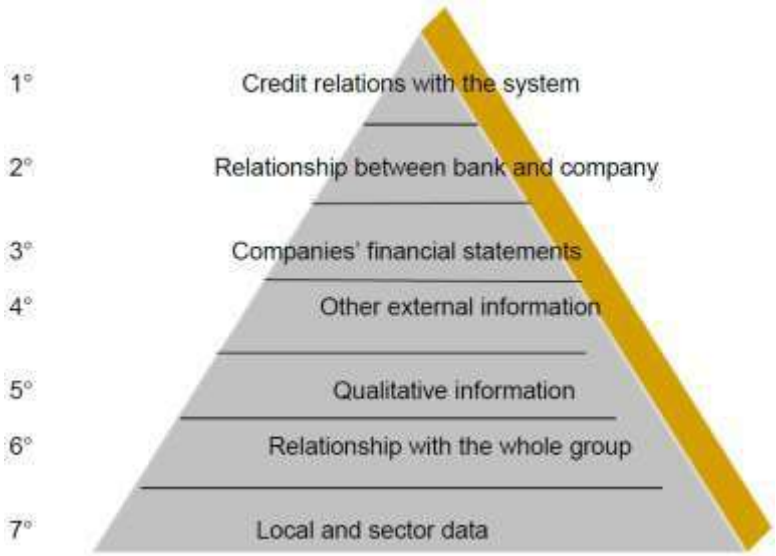
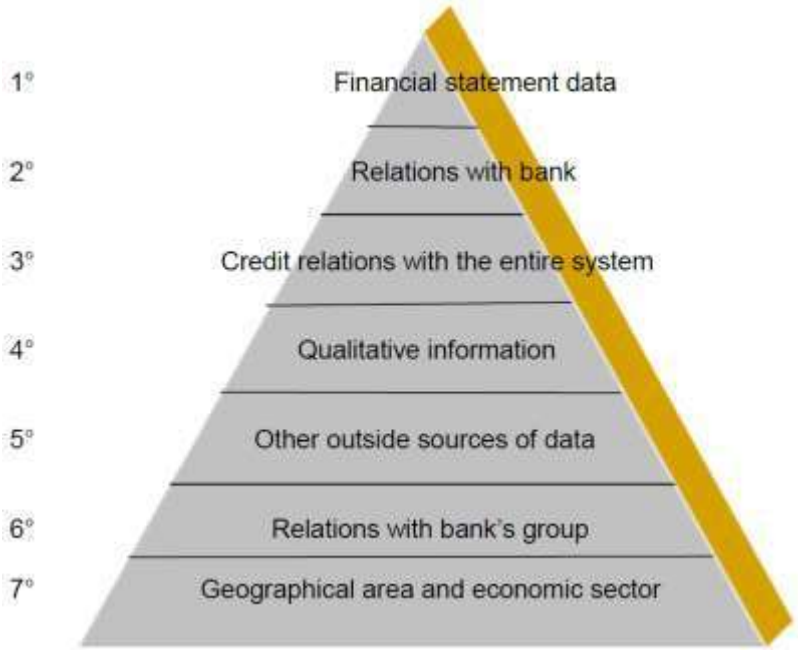


**Figure D2: The ranking of lending decisions - small group member banks**



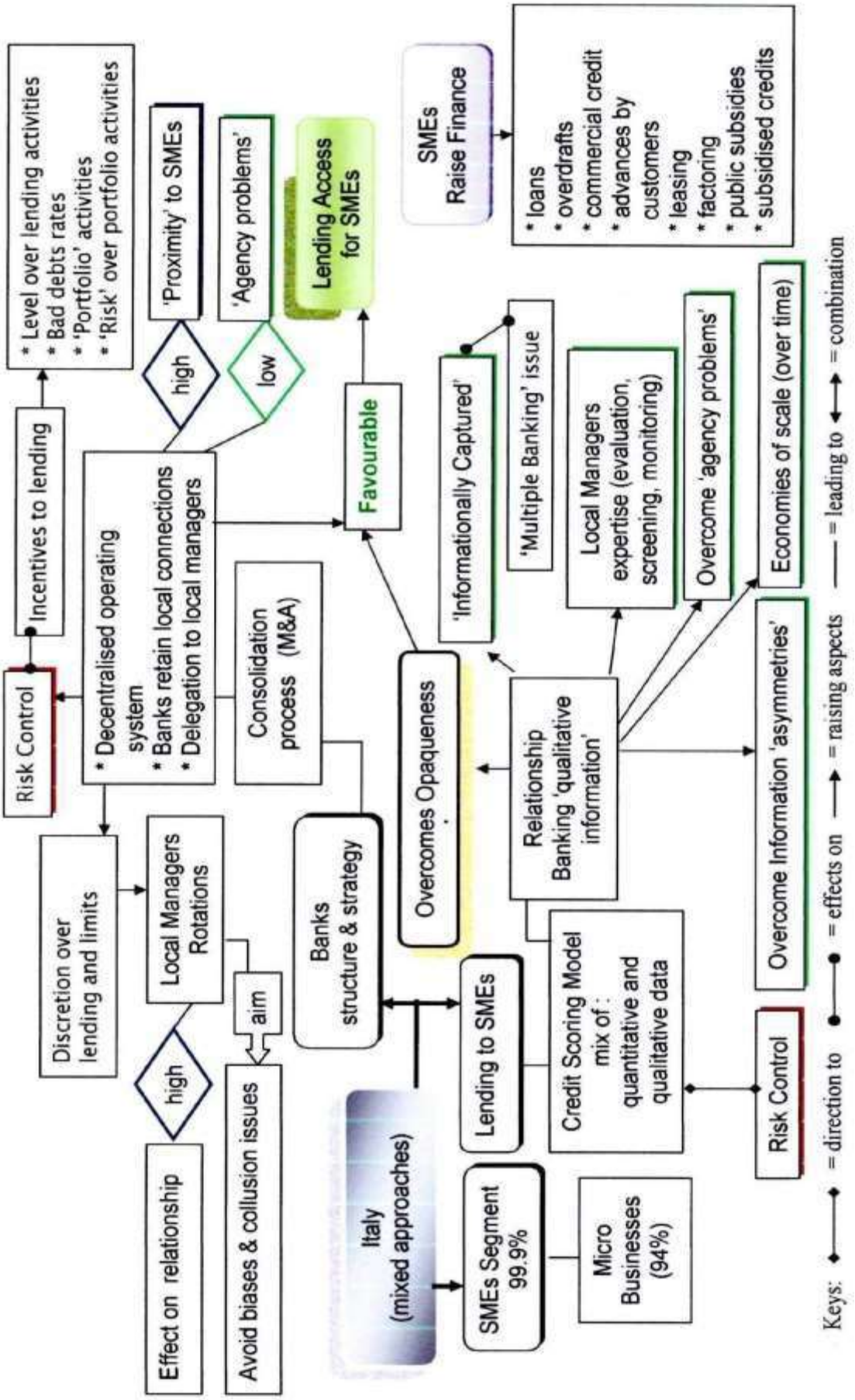

Source: Adapted and copied from Alberato et al., 2008 p.23,24,36; 36 and Alberato et al., 2010 p.27;3

Within the decision-making process, the transactional approach applied to SMEs avails itself of the use of collaterals as well as information obtained by financial statements and ratings. Qualitative information in a relationship lending approach, remains an important factor in the assessment process, especially in the case of opaque businesses, where third-party information is either absent or limited (see Alberato et al., 2010 and Alberato et al., 2008). SMEs increase liquidity not only through standard credit applications but, as the evidence suggests, through a tendency to raise funds by other means. In most cases, liquidity is raised by way of “overdrafts, commercial credit and advances by customers”. The other forms, although in a reduced concentration, are represented by “leasing and factoring” and “public subsidies and subsidised credits”. Funds are raised for “current working capital”, “market growth” and dedicated to “research and innovation” (ISTAT, 2011b p.1;3;5). The application of a relationship lending approach places an emphasis on high expertise linked to the processes of evaluation, screening and monitoring. This process requires high initial costs that are absorbed over time due to the acquisition of strategic creditors and local information. Acquired strategic background information is an essential element of future lending

evaluations over lending applications (Bharath et al., 2007 and Boot and Thakor, 2000). The decentralised system (Beck et al., 2008) and increased power over credit decisions for local managers is a way to reduce these problems, although the control issue on risk still exists (see Albarato et al., 2010 and Albarato et al., 2008).

Draghi (2009, p.1) highlighted that “it is equally important that in deciding on loans banks use all the information available, that they supplement statistical scoring models – which lose some of their predictive power at times of crises – with direct knowledge of customers and their real potential for growth and profitability in the long term”. This view is to a certain extent substantiated by the result of a survey among SMEs conducted by the Italian National Institute of Statistic (ISTAT, 2011b), which found that in 80% of cases the most important element of the application for credit was based on an already established relationship and on the type of relationship. Two other factors, less central but still considered, are the importance that banks give to small entities and the ability of the former to establish an effective relationship with businesses (ISTAT, 2011b p.1;3).

**Figure D3: Italy – banks' lending to SMEs**



**The United Kingdom:**

The banking sector in the United Kingdom, as in the rest of the European Union, has undergone a restructuring process that has seen a reduction in the number of local branches and an increase in centralised lending (see Issing, 2002; Rajan and Zingales, 2003). The restructuring process that has taken place since 2010 has reduced the retail banking sector to four main groups; namely, Lloyds Banking Group, Barclays, the RBS and the HSBC. These banks represent an 80% share of the market and are therefore the main players within the United Kingdom financial market, whilst building societies have reduced their activities (see Davies and Richardson, 2010). Goddard et al. (2007 cited in Mercieca et al., 2009, p. 138), looking at banking consolidations, highlights that "this raises fears that consolidation decreases the number of banks specializing in relationship banking with possible detrimental welfare effects for local firms, especially SMEs, these firms' access to credit, and, ultimately, economic growth". An important issue that it is raised is the view that the country's financial sector is based on the "neoclassical perspective", where the demand and supply theory prevails as banks aim at profit maximisation and clients seek value (Ashton and Keasey, 2005 p.484) In this perspective banking institutions view relationship lending as negative due to linked cost to lending and risk associated to possible defaults (Ashton and Keasey, 2005). The UK Competition Commission (2002; cited Ashton and Keasey, 2005 p.477), states that in the banking sector "a complex monopoly prevails in the supply of banking services to small and medium size enterprises". The consolidation process of the banking sector was characterised by mergers and acquisitions. This strategy was aimed at profit maximisation and risk avoidance. The interrelated consequences of this phenomenon, such as a reduction in the number of local branches and a centralised decision-making process for credit allocation, has resulted in a shift from a bank-based system to a more 'arms-length' type approach.

Furthermore, banks' lending activities benefit from the combination of two elements in order to control credit risk and increase profit. The first is represented by a strength in the legal system, which ensures the recovery of bad debts. The second is characterised by credit assessment pre-requisites, in the form of both

collaterals and quantitative-type information. In transactional lending systems, such as the one operated by banks in the United Kingdom, decisions of lending approvals are characterised by standardised and in some cases computerised processes. SMEs are not in a position to benefit from open market arms-length transactions due to transparency deficiencies in business information (see Issing, 2002; Rajan and Zingales, 2003; Lane and Quack, 1999; Hussain et al., 2006 and Allen et al., 2005).

The United Kingdom's banking system is therefore described as 'market-based' and orientated towards profit maximisation, whereby the reliance on lending activities based on bank-based systems, to enhance relationship lending approaches, assumes a less strategic relevance. The disadvantage of a market-based approach and the assessment of potential creditors' solvency through third-party valuations, ascribable to a transactional methodology, prepares the ground for a distortion of information and the inability of viable SMEs to access credit (see Ashton and Keasey, 2005; Luintel et al., 2008 and Mullineux and Terberger, 2006). The BDRC Continental (2012, p. 24) reports that banks rely on external ratings provided by 'Dun & Bradstreet and Experian' in lending to SMEs, but this type of information is not available for all small creditors with the consequence of smaller more 'opaque' entities, representative of a large proportion of the market, being excluded from potential financing. The financial system is characterised by a banking structure that operates a strategy of lean processes and centralised decisional and operational systems over lending activities. In this type of system the issue of 'proximity' to clients and the external environment (e.g. Hausewald and Marquez, 2000 and Berger and Udell, 2002 and Boot, 2000) are not elements of concern in credit assessments due to a perception on diseconomies of scale (e.g. Berger and Udell, 2006 and Petersen and Rajan, 2002) in processes on the acquisition, assessment and monitoring of 'soft' information. From SMEs' point of view, a strategy orientated towards a transactional approach, which does not recognise the importance of the acquisition of qualitative business information, decreases access to liquidity and amplifies the problem of information asymmetries (Boot, 2000).

Berry et al. (2004, p. 115-116), in their article, propose that "The literature suggests that one area of concern is UK banks adopting a security-based approach to lending to SMEs". In fact, the way in which the banking sector makes

decisions on lending to SMEs is illustrated as being prevalently the “gone concern” approach. This approach requires credit judgments to be based upon the covering of debt through the estimates of asset availability and value in case borrowers should cease to operate. The approach of the ‘gone concern’ concentrates highly on “debt/equity ratio”, on “availability of security”, in the business “post and current position” and on “bank account movements” in the view of risk evaluation to lending (Berry et al., 2004 p.120). For a complete description of the characteristics of the ‘going concern’ and the ‘gone concern’ approaches, as proposed by Berry et al. (1993 cited Berry et al., 2004 p. 120), please refer to Figure D4.

**Figure D4: The characteristics of the “Going Concern” and “Gone Concern” approaches to Lending**

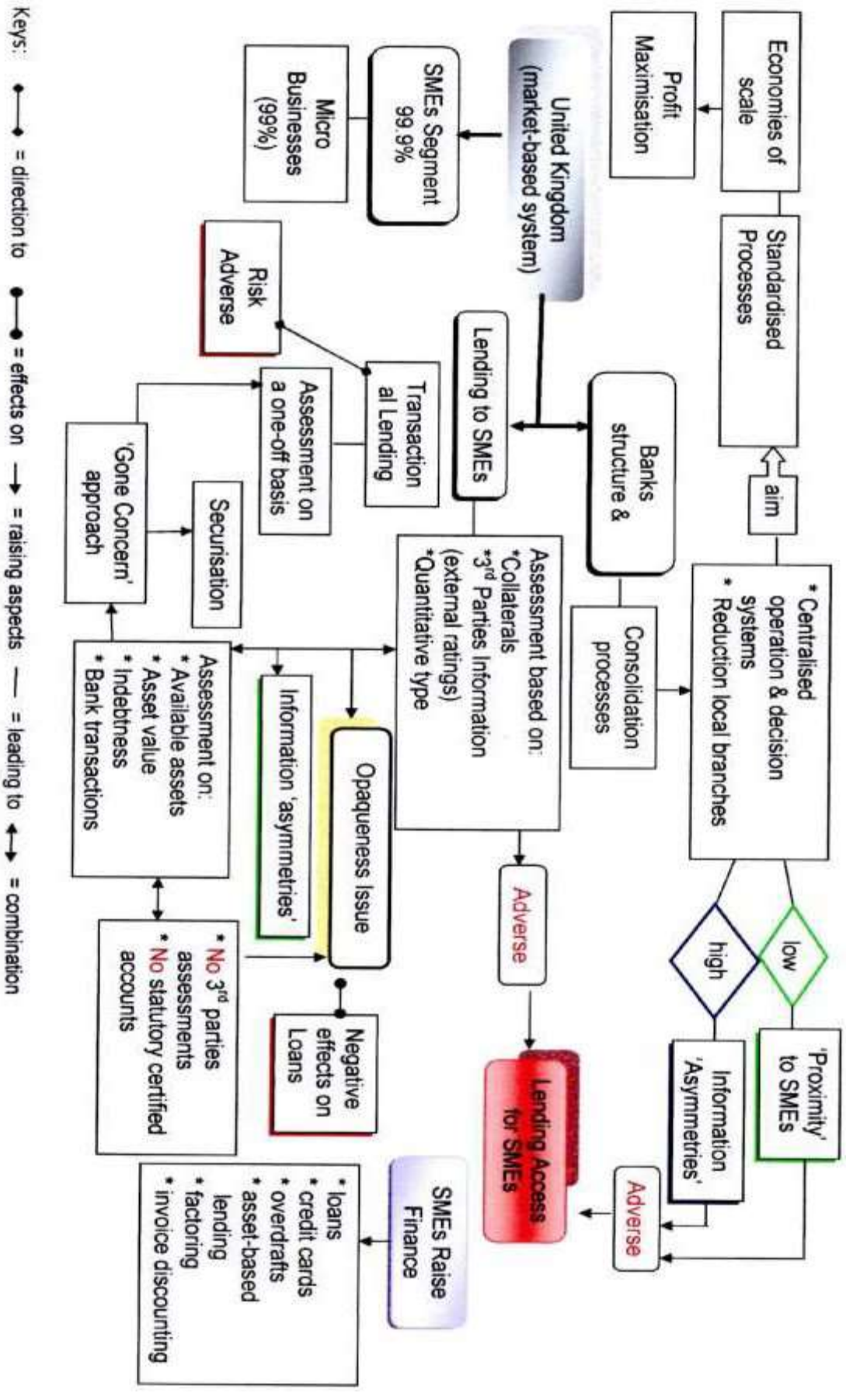
| *Type of Information* | *Going Concern Approach* | *Gone Concern Approach* |
|---|---|---|
| *Degree of Emphasis* | | *Degree of Emphasis* |
| Initial Decision | | |
| Business environment | High – Enables testing | Low |
| Asset base | Medium – Background | High – Valuation base |
| Debt/equity ratio | Medium – Equity cushion | High – Risk reduction |
| Availability of security | Low | High – Risk reduction |
| Future cash flows, P & L | High – Repayment | Low |
| Sensitivity analysis | High – Risk analysis | Low |
| Past and current position | High – Testing forecasts | High – Valuation base |
| Monitoring | | |
| Management accounts | High – Check to forecasts | Low |
| Working capital trends | High | Medium/high if covenants |
| Bank account movements | Low – Accounts substituted | High – Monitor loan/overdraft |

Source: Berry et al., 1993 cited Berry et al., 2004 p. 120

There is a clear indication that banks, in the assessment of SME credits, rely heavily on securitisation and on the value of the business assets in existence at the time of a credit request, together with the level of indebtness and bank transactions. The evidence indicates that SMEs raise liquidity through the application of loan-type finance. However, other types of credit facilities are also applied for and these are credit cards, overdrafts, asset-based lending, factoring and invoice discounting (Varley et al., 2010 and BDRC Continental, 2012). The importance of SMEs’ access to finance has been widely recognised; so much so that the United Kingdom Treasury has directed policies towards ‘social banking’ by introducing Community Development Financial Institutions (CDFIs). These are

aggregated entities which provide financial support to ‘opaque’ businesses and reintroduce a form of lending directed towards relationship banking. The policies enacted are an attempt to facilitate SMEs’ access to finance within a monopolistic banking system directed towards profit maximisation, risk avoidance and cost reductions (BIS, 2010a and Mullineux and Terberger, 2006).

**Figure D5: United Kingdom – banks' lending towards SMEs**



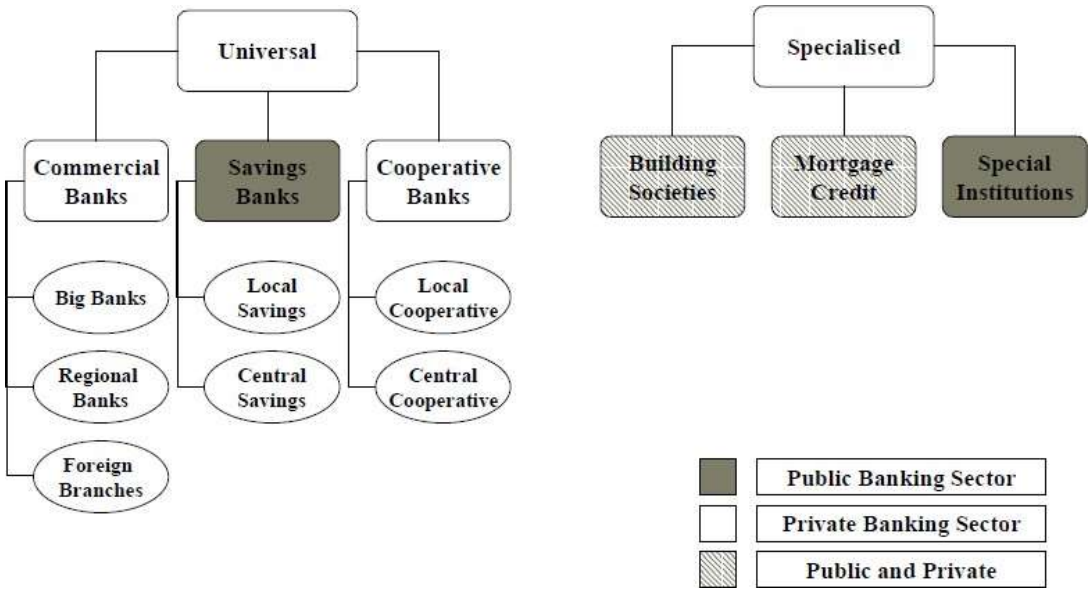
**Germany:**

The German SME sector accounts for a 99.5% share of the total market with a high concentration in the number of micro businesses. These represented 83.3% in 2011 and 81.8% in 2014. (European Commission, 2011c and European Commission, 2014c)

The German financial system is considered a bank-based system (see Elsas and Krahnen, 1998; Engerer and Schrooten, 2004; Deeg, 1998 and Hackethal and Schmidt, 2005). Financial institutions' assessment of credit is based on a relationship lending approach (see Berger and Udell, 2002; Berger and Udell, 2006; Dabrassi Prandi, 2006; Berger and Black, 2011 and de la Torre et al., 2010).

The banking system is described as 'universal' and, due to the 'proximity' to clients and a propensity to build relationships with clients, banks are denominated 'hausebanks' as envisaged by the "hausebank principle" (see Elsas and Krahnen, 1998; Elsas, 2005; Behr et al., 2004 and Behr and Güttler, 2007). The banking structure is based on a 'three pillars' system and follows 'three criteria'. The first criterion is a separation between public and private institutions. In the second criterion a distinction is made between 'universal' and 'specialised' groups. The third criterion makes a distinction between three types of institutions, including "private commercial banks, public sector banks and cooperative banks" (see Krahnen and Schidt, 2004 cited International Monetary Fund, 2011 p.4 and Koetter et al., 2004 p. 27). The German banking system is fragmented and is represented not only by private commercial banks and cooperative institutions, but also by a high proportion of 'publicly owned' banks including the "municipal savings banks" or 'Sparkassen' and the 'Landesbanken' (see Brunner et al., 2004; International Monetary Fund, 2011 and Hackethal and Schmidt, 2005). To illustrate most effectively the highly fragmented German 'three pillar' banking system, the structure proposed by Koetter et al. (2004, p.28) is reproduced in Figure D6.

**Figure D6: "Three Pillar" banking system**




Source: Koetter et al., 2004 p.28

In terms of total assets, saving banks and Landesbanken in 2010 accounted for 31% of the market; private institutions had 36% of the share whilst other classifications such as cooperatives and specialised banks were represented by 11% and 22% respectively (see International Monetary Fund, 2011 p.25).

The representation in 2008, in terms of the number of banks, indicates a higher concentration in the case of cooperative institutions, with a coverage of 1,201 banks, whilst, in the case of public and private banks, the level decreases to 448 and 283 respectively. However, for the same period, the situation shifts in the context of the number of institutions' branches where public banks are represented by 13,939 local offices whilst cooperatives and private institutions account for 12,356 and 11,277 offices respectively (see Hüfner, 2010 p.10 and International Monetary Fund, 2011). Private commercial banks are represented by 'big banks' and represent institutions operating at regional level. These types of institutions operate in "corporate" and "retail" business. In addition, they have a strategy aimed at enhancing "investment activities". Their structure is hierarchical with a tendency towards decentralised systems to provide regional services (see Hackethal and Schmidt, 2005 p.7 and International Monetary Fund, 2011). Publicly

owned banks represented by both Sparkassen (savings banks) and Landesbanken are the institutions to have SME lending as a primary activity. They both operate on a “regional principle” and on a “subsidiary principle” where competition at a regional or vertical level between divisions is not permitted (see Hackethal and Schmidt, 2005 p. 23).

The Sparkassen operate at a local level within individual federal states or ‘Landers’ whilst the Landesbanken are allowed to function in one or more regional states. In the case of the Sparkassen, the objective is to enhance regional economic activities. In practice, they operate according to regional settings through a well-established ‘network’ aimed at creating the scope for relationship banking development towards the local ‘Mittelstand’ (SMEs) (see International Monetary Fund, 2011 and Hackethal and Schmidt, 2005). The structure is hierarchical with a high concentration in the number of local branches. They are organised to guarantee a decentralised type of organisation; thus, both the location and proximity to local communities are important in creating the right capacity to enhance a flexible approach towards clients, typical of a ‘hausebank’ system approach to lending (see Elsas and Krahnen, 1998 and Elsas, 2005). In fact, the issue of ‘proximity’ to businesses enhances the propensity to establish long-term relationships in terms of approaches in lending (see Hackethal and Schmidt, 2005; Petersen and Rajan, 2002; Berger and Udell, 2002; Boot, 2000; Hauswald and Marquez, 2000).

Hüfner (2010, p.8) indicates that in the case of savings banks, “their core business is retail banking and relationship banking to SMEs and they maintain the largest branch network of all banking groups”. In addition, these types of institutions compete only at regional level with cooperatives and private banks (see Hüfner, 2010). The Landebanken activities are directed towards other financial activities such as investment banking. Public banks provide “subsidised lending on behalf of the government” (International Monetary Fund, 2011 p. 5). The main peculiarity of the German financial system has been the government’s guarantee to public sector banks and the inevitable problem of ‘distortion’ in competition due to the absence of risk in the case of defaults, as opposed to commercial private banking and cooperative institutions. The automatic guarantee of state cover ceased in 2005 following a request from the European Commission. However, the state still maintains ownership of ‘municipal’ banks which, to a certain extent, still benefit

from a default opportunity (see Engerer and Schrooten, 2004 and Carletti et al., 2005). Cooperative institutions, similarly to savings banks, operate on the basis of the "regional principle" with the aim of supporting their members with a low emphasis on profit maximisation. Similarly, their structure is decentralised; therefore, 'proximity' is important to ensure local contact with consumers (see International Monetary Fund, 2011; Hackethal and Schmidt, 2005; Petersen and Rajan, 2002; Berger and Udell, 2002; Boot, 2000; Hasewald and Marquez, 2000).

The difficulty posed by a 'three pillar' system is the creation of a structure able to facilitate the aggregations between institutions, as banks operate according to different "objectives" and "liabilities" (see Engerer and Schrooten, 2004 p.235 and International Monetary Fund, 2011 and Hüfner, 2010). Private banks aim towards profit enhancement; public institutions have regional economic development as their objective, whilst cooperative banks concentrate on members' benefits, as illustrated in more detail in Figure D7. Consolidation processes have occurred within the same segment of the market, primarily involving 'Sparkassen' banks (International Monetary Fund, 2011).

**Figure D7: Types of institutions 'objectives and liabilities'**

| | Commercial Banks | Public Law Banks | Cooperative Banks |
|---|---|---|---|
| Objective | Profit maximisation | Public commission, also (e.g.) to promote savings and asset formation, SMEs and new businesses and to finance public work | To promote the income and businesses of their members |
| Liability | Liable to customers | State guarantee: Federal government's institutional liability until 2005 | Solidarity, members obliged to make further contributions |

Source: DIW Berlin cited in Engerer and Schrooten, 2004 p.236

The SME segment in Germany, due to the inability to raise equity through free financial market-type transactions, favours long-term relationships with local institutions in the application for credit (Elsas and Krahnen, 1998). The 'hausebank principle' adopted by German institutions provides a fertile ground to assess SMEs' credit requests. The 'hausebank' is a provider of services that goes beyond the very simple evaluation of creditworthiness towards credit allocation and decreases the issue of 'multi-banking' as SMEs are less orientated towards possible changeovers (Elsas and Krahnen, 1998). However, in the case of

Germany, where the bank-based system is highly accentuated with a consequential low 'multi-banking' activity, the occurrence of the 'hold-up' problem on creditors remains an issue to be considered. Businesses can in fact be informationally 'captured-in' by institutions due to the high 'switching cost' that SMEs can possibly face in the case of bank changeovers (see Boot, 2000 and Ongena and Smith, 2001). The relationship banking approach overcomes the 'information asymmetry' due to the propensity to acquire high-level knowledge of potential and existing clients' strategic targets dictated by the internal and the external environment (see Boot, 2000; Berger and Udell, 2002 and Stein, 2002).

In the case of Germany, the result is that SMEs' main source of financing is loans to banks. Furthermore, the level of loan applications registered between 2007 and 2010 showed a slight increase from 33% to 36%. The evidence suggests that SMEs also have a tendency to raise finance through 'leasing', 'overdraft facilities', 'trade credit' and 'advance payments' (Kohlmann, 2011).

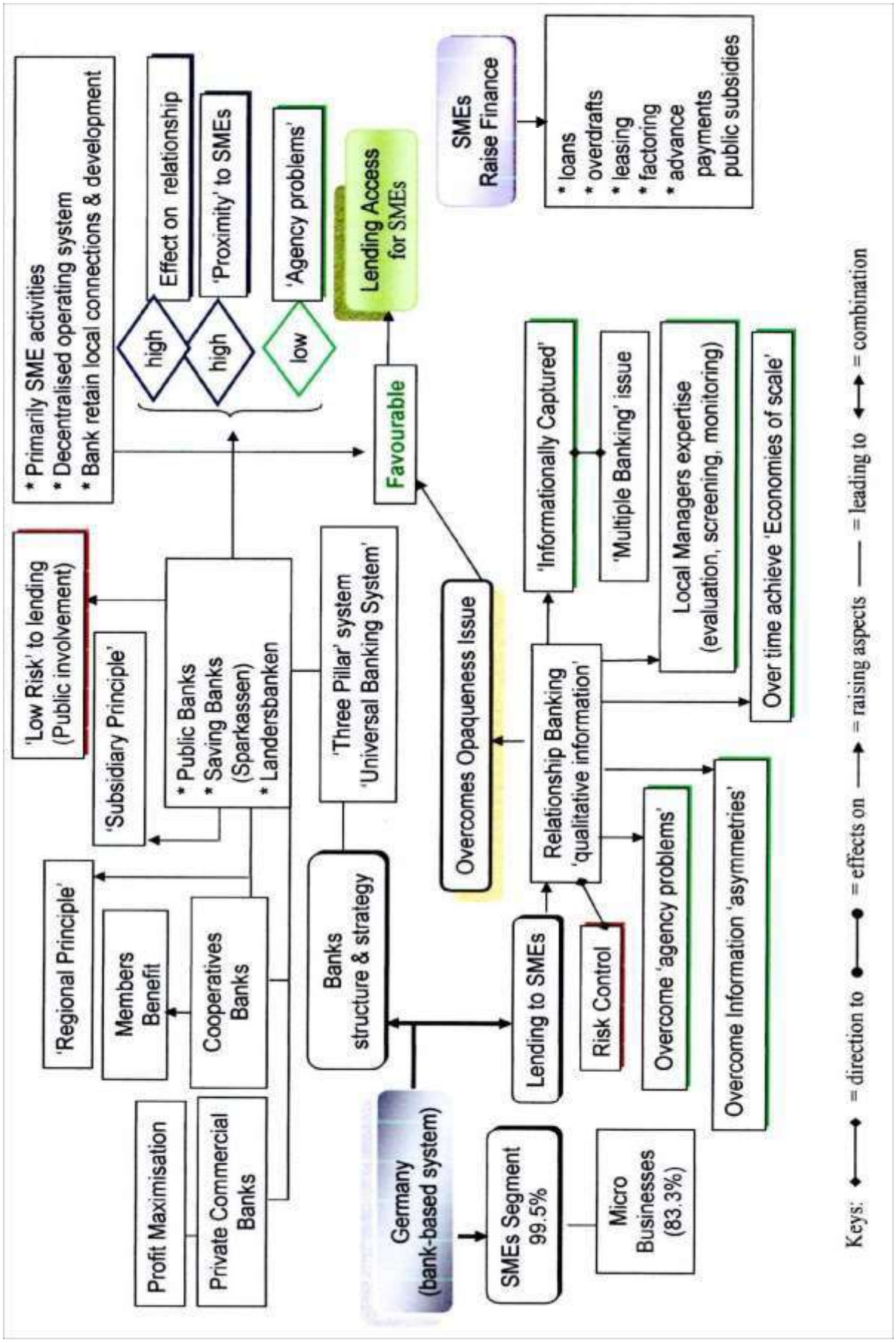
Banks have a propensity to value 'risk' towards lending to SMEs by three main analytical approaches. In the first instance, the analysis is directed towards the economic perspective. Secondly, the context of the external environment with a specific emphasis on the sector or the segment is considered. Thirdly, in the case of guarantees requested to cover possible defaults, the risk is considered with respect to the available security (Deutsche Bundesbank, 2012).

An important element to be addressed in the consideration of SMEs' tendency to apply for loan-type finance is the need to accentuate the importance of local managers in the bank-client relationship. Local managers' expertise in the evaluation, screening and monitoring practices are essential in relationship banking methodology for lending. Initial background activities and information analyses are costly processes. A relationship, once established, favours these types of activities due to the ability to evaluate customers more effectively in the allocation of credit. This creates the scope for long-term cost reductions which lead to economies of scale (see Bharath et al., 2007 and Boot and Thakor, 2000).

The fragmentation of the German financial system provides scope for consolidation to enhance competition; however, this can raise the issue of possible implications for SMEs' lending activities which are based on the 'hausebank' principle. The number of branches could be decreased following consolidation

processes and the possible repercussions may be felt on SMEs' lending and local regional developments (see Memmel et al., 2007; Hackethal and Schmidt, 2005 and Carletti et al., 2005).

**Figure D8: Germany – banks' lending towards SMEs**



# Appendix E **Local Lending – Context**

### The Italian framework

The Italian industrial sector accounts for 40.5% (including manufacturing) of the whole economic system (ISTAT, 2012). The system is based on well-established industrial districts or clustering systems to favour synergies within the territory. Synergies have favourable effects on innovation and local development (Porter, 1990). The rationale behind the choice of country is a well-established cooperative banking system which accounts for 50% of total bank branches; 48% of SMEs apply for credit through this channel (ISTAT, 2011c). The recognition and classification of 'industrial districts' at regional levels are regulated by national laws (no. 317/'91, art. 36 of 1991 – reviewed no.140 of 1999) through both a qualitative and a quantitative methodology application. Clusters are formed locally by linking different firms in some ways. "Clusters can be characterised as production networks of strongly interdependent firms (including specialised suppliers) linked to each other in a value-adding production chain" (Organisation for Economic Co-operation and Development, 1999 p.9). Furthermore, "Related industries are those in which firms can coordinate or share activities in the value chain when competing, or those which involve products that are complementary" (Porter, 1990 p. 105). "Clusters are able to enhance innovation, exploit new opportunities (invest and specialise), enhance information flows (interdependencies created), proximity encourages business transactions and new entrances to promote research, development and differentiation" (Porter, 1990 p.151).

The importance of cooperative banks for SMEs' access to credit finds its support at European Union level, where the European Association of Cooperative Banks (2011) stresses the importance of this type of institution for SMEs and economic development. The Italian financing system is also characterised by the presence of CONFIDI, as local mutual loan guarantee societies, acting as intermediaries between SMEs and institutions in the credit assessment process. The CONFIDI, which operate under the mutuality principle, are mutual loan guarantee societies for SMEs to access credit. They are governed by a National Law (no. 326 of 2003 revised art. 10 - 141/2010). Their objective is to guarantee funds for SMEs and

provide connected services. They act as intermediaries between bank institutions and SMEs for the assessment process for credit applications and are guarantors for approved loans (see Mistrulli et al., 2011; Camera di Commercio Industria Artigianato Agricoltura di Torino, 2010). The research reveals that cooperative banks might be regarded as efficient systems that can provide local lending to SMEs by establishing close relationships, thus enhancing local and regional wealth. For this purpose, there is scope to possibly reflect on innovating the Italian banking cooperative system to promote local banking practices for SMEs' access to credit. The study therefore proposes the possible creation of a formal link between the cooperative banking system and the CONFIDI. This cooperation of 'mutual' entities might be viewed as an innovative scheme for the Italian cooperative banking system, with the aim of increasing local and regional coverage through a regional and local distribution, accompanied by well-developed market knowledge. The aim could be to create possible risk-sharing between cooperative banks (BCC) and CONFIDI towards defaults. Furthermore, a synergic approach to create a formal link with the CONFIDI might assist in reducing costs of lending. This approach might translate into positive results for SMEs' access to credit. Another significant aspect that this research attempts to address is 'microfinance' as a recognised important feature of lending activity to SMEs. The application of this kind of financing is recognised and encouraged by the European Commission program "European Progress Microfinance Facility" which was launched in 2010 aimed at assisting small businesses' 'set-up and development' (see European Commission, 2013a). The study attempts to propose microfinance financing as a niche market within the BCC strategic structure by establishing strong links with the European Union.

### The Italian manufacturing system in context

For the purpose of this research consideration is placed on the articulated Italian industrial system where realities develop and grow within a complex socio-economic environment. The Italian manufacturing economic reality is described as being complex in nature, due to the high level of diversification both in terms of size and by industry concentration and dislocation (Fortis and Carminati, 2009 and Paolazzi et al., 2010). Small businesses participated, in 2006, in the manufacturing added value of 49% against 8% of larger organisations. Micro businesses, due to their number, represented a high proportion of the added value (Coltorti, 2010

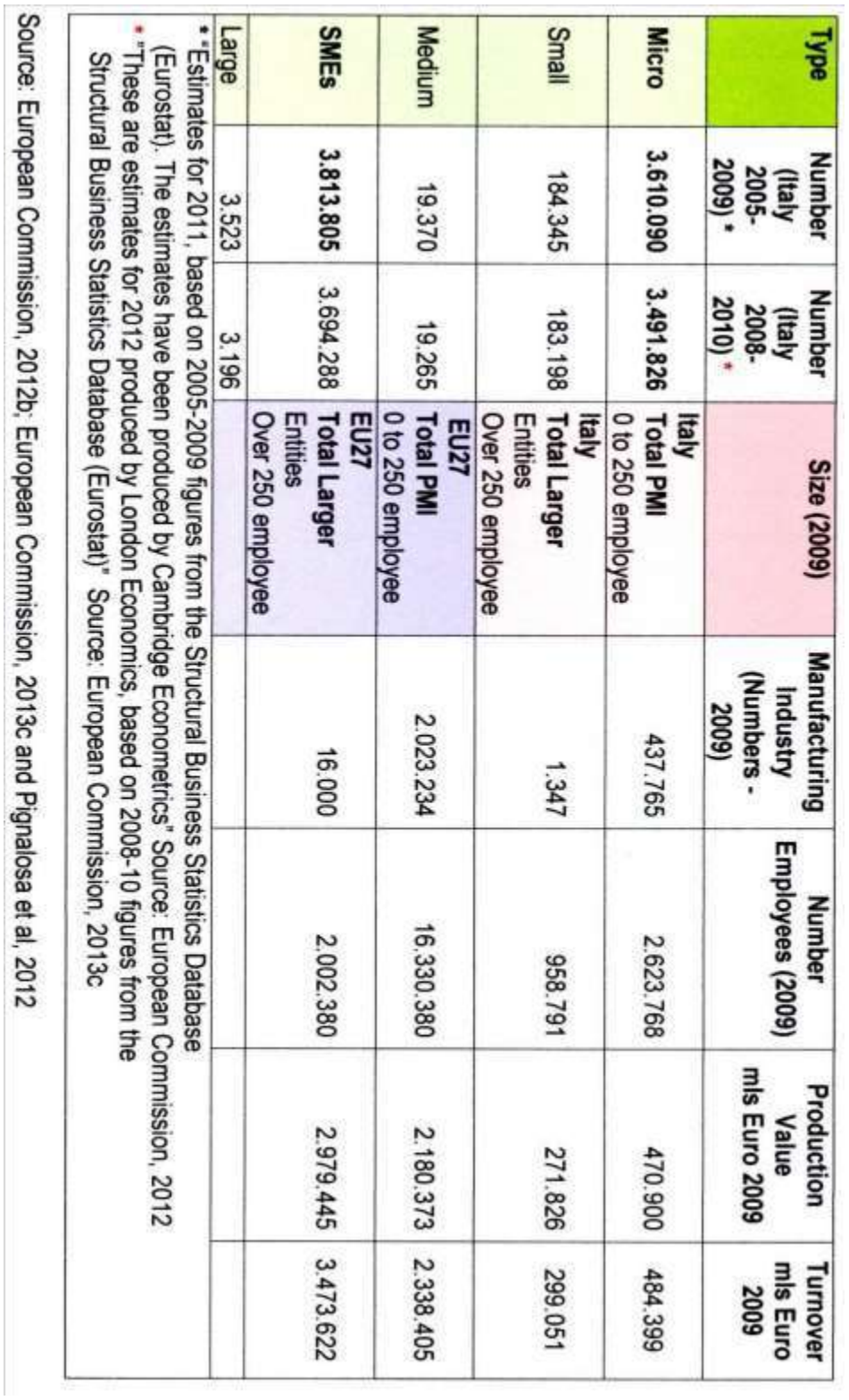
p.188). SMEs are highly representative if compared to larger-sized organisations in terms of size concentration, manufacturing segment, number of employees, production and turnover participation. A reduction in the number of businesses can be observed between 2005 and 2010 in Figure E1, which offers a brief analytical outline of the industrial sector and its interrelation to the financial sector as an added value element on placing this study into context. Italy is mostly competitive in the textile, apparel and leather and footwear sectors and also excels in mechanics and chemicals manufacturing and products such as marble, ceramics and tile specialists and food products; these compose the four main clusters categorised in the “4A” (Taranzano, 2013 p.24). Fortis and Carminati (2013, p.9)’s research illustrates four main sectors or “4A” regarded as the most profitable and commercially competitive, both in the domestic and in the global market; these are ‘food and wine, fashion and building materials, non-electronic machinery and plastic/rubber products’.

The Fondazione Edison report (2009) draws attention to the importance of interlinking the aspects of innovation and development to other market players. It is underlined that “It is necessary that all the innovation systems – organisations, universities and the public research world, the institutions, the financial world – collaborate so that these enterprises at high technological content can become really competitive” (Renzi et al., 2009 p.106). Furthermore, it is stressed that “The weak link, as already mentioned, is not as much the research and the availability of innovative projects, but the financing that is needed to bring products and services, as a result of the research, on to the market” (Renzi et al., p.106).

Coltorti (2010, p.185-187) indicates that the economy in Italy has gone through different faces over the decades and describes the current period as being the “fourth capitalism”. In the study it is reported that the Italian economy presents different “anomalies” which should be ascribed to the economic structure characterised by a high level of manufacturing. The peculiarity is “the presence of family controlled structures, usually not sustained by alliances with financial entities and the low presence within the sectors of high technology” (Coltorti, 2010 p.185-187). The elimination of the vertical integration typical of large organisations has participated in the reported transformation. Big industries have gone through changes in their structure and activities to enact economies of scale both in terms of manufacturing processes and operating costs. These adjustments have created

a gap within the transformation process. New players and existing small family firms have accessed markets by introducing or enhancing their know-how in the 'intermediate goods' segment to produce specialised goods.

**Figure E1: SMEs sector composition and manufacturing dimensions**



| Type | Number (Italy 2005-2009) * | Number (Italy 2008-2010) * | Size (2009) | Manufacturing Industry (Numbers - 2009) | Number Employees (2009) | Production Value mls Euro 2009 | Turnover mls Euro 2009 |
|---|---|---|---|---|---|---|---|
| **Micro** | **3.610.090** | **3.491.826** | **Italy Total PMI** 0 to 250 employee | 437.765 | 2.623.768 | 470.900 | 484.399 |
| Small | 184.345 | 183.198 | **Italy Total Larger** Entities Over 250 employee | 1.347 | 958.791 | 271.826 | 299.051 |
| Medium | 19.370 | 19.265 | **EU27 Total PMI** 0 to 250 employee | 2.023.234 | 16.330.380 | 2.180.373 | 2.338.405 |
| **SMEs** | **3.813.805** | 3.694.288 | **EU27 Total Larger** Entities Over 250 employee | 16.000 | 2.002.380 | 2.979.445 | 3.473.622 |
| Large | 3.523 | 3.196 | | | | | |

* "Estimates for 2011, based on 2005-2009 figures from the Structural Business Statistics Database (Eurostat). The estimates have been produced by Cambridge Econometrics" Source: European Commission, 2012
* "These are estimates for 2012 produced by London Economics, based on 2008-10 figures from the Structural Business Statistics Database (Eurostat)" Source: European Commission, 2013c

Source: European Commission, 2012b; European Commission, 2013c and Pignalosa et al, 2012

Giorgio Fuà (1983 cited Coltorti 2010, p. 185-187) underlines how a form of integration, called the 'NEC model' as the 'third capitalism', has been a strategy to enhance the industrial sector to create the right environment to promote innovation and growth.

This approach was "based on autochthonous businesses, prevalently of small dimension, widely spread on the territory, closely linked with the country environment and with the small and medium cities". This model involves two 'leverages'; the first is "the organisation of integrated systems of small businesses (the districts and the other local productive systems)" and the second is "the specialisation in the niche production, that he called 'Italian style', or customised production" (Giorgio Fuà, 1983 cited Coltorti 2010, p. 185-187). The suggestion is that it is a 'district system' undergoing a transformation process to adapt itself to the new environment, but it is in essence forming the basis of today's 'fourth capitalism' (Coltorti, 2010 and Fortis et al., 2009). Fortis et al. (2009, p.53) highlight that specialisations are according to "industrial districts" (DI) which appear to be really relevant in the economic development of the country.

According to Beccatini (cited in Fortis et al., 2009 p.53), "the community and the firms tend to interpenetrate into one another". The ISTAT (2009) reports the Italian economic reality as being centred on local businesses. There is evidence of specialised activities being concentrated in specific regional areas and linkages to the main industrial districts. It is suggested that "the territory is a 'system' of localised resources (production activities, but also competences, traditions, know-how); of external technologies (that display themselves through contiguity) and economic (through market process); of proximity relations which are able to increase the efficiency of production factors; of cultural elements and of 'values' that define local entities; of rules and practices that constitute a model of governance" (ISTAT, 2009 p. 115). There is a suggestion that, despite activities being localised and regional-centred, a linkage between industrial entities to cover the national territory does exist. These linkages are to provide an increased competence exchange (ISTAT, 2009). The Italian system is therefore based on industrial districts or clustering which, as Porter (1990) highlights, favour synergies within the territory. The Italian cluster is primarily associated with the Marshallian-type district concept although the 'hub-and-spoke' industrial district structure

remains a characteristic (Markusen, 1996 and Knorringa and Meyer-Stamer, 1998). Both types of districts are best illustrated by E2, E3, E4 and E5.

**Figure E2: Italy's districts categorised according to 4 main representative segments or 4s**

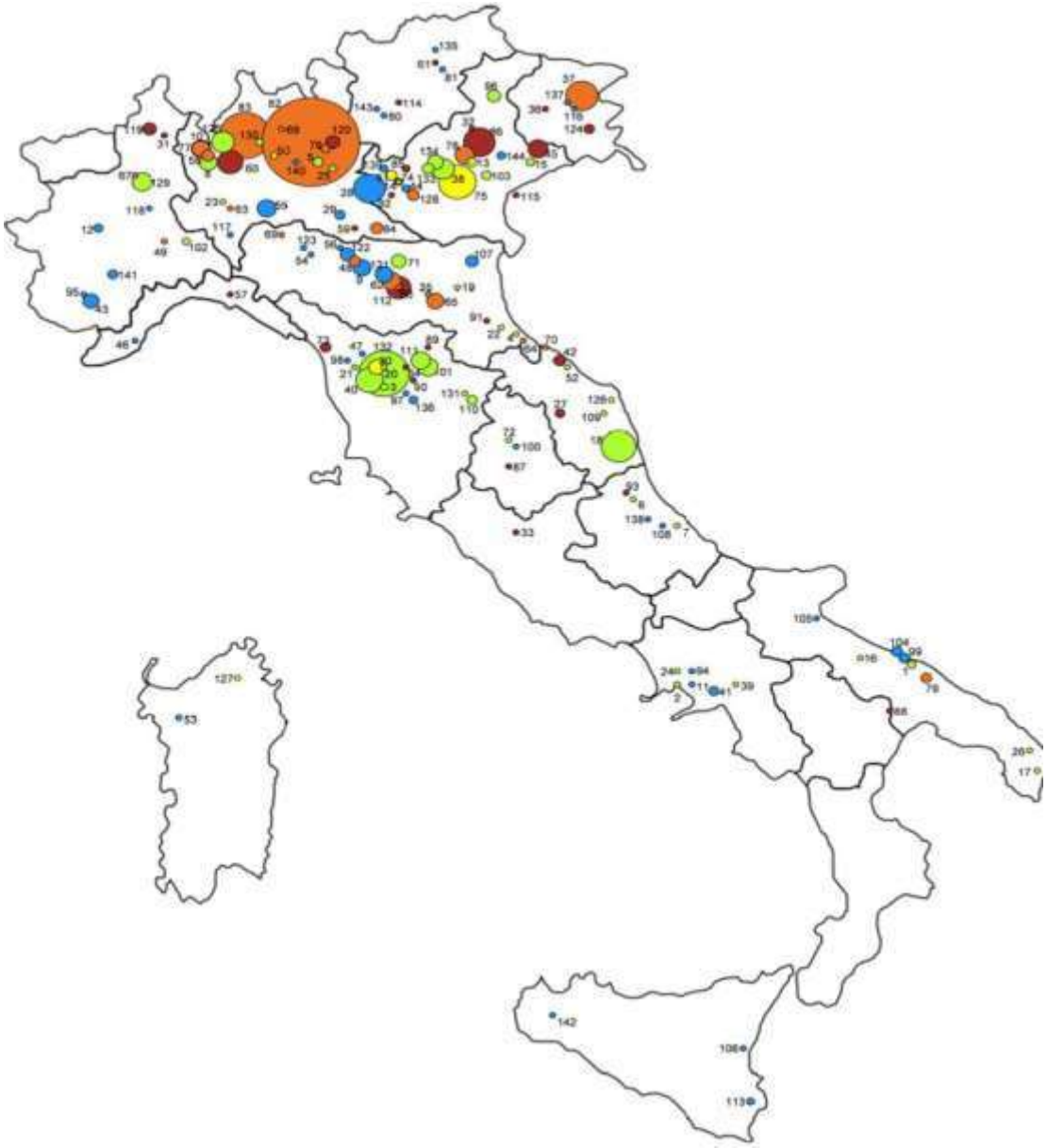
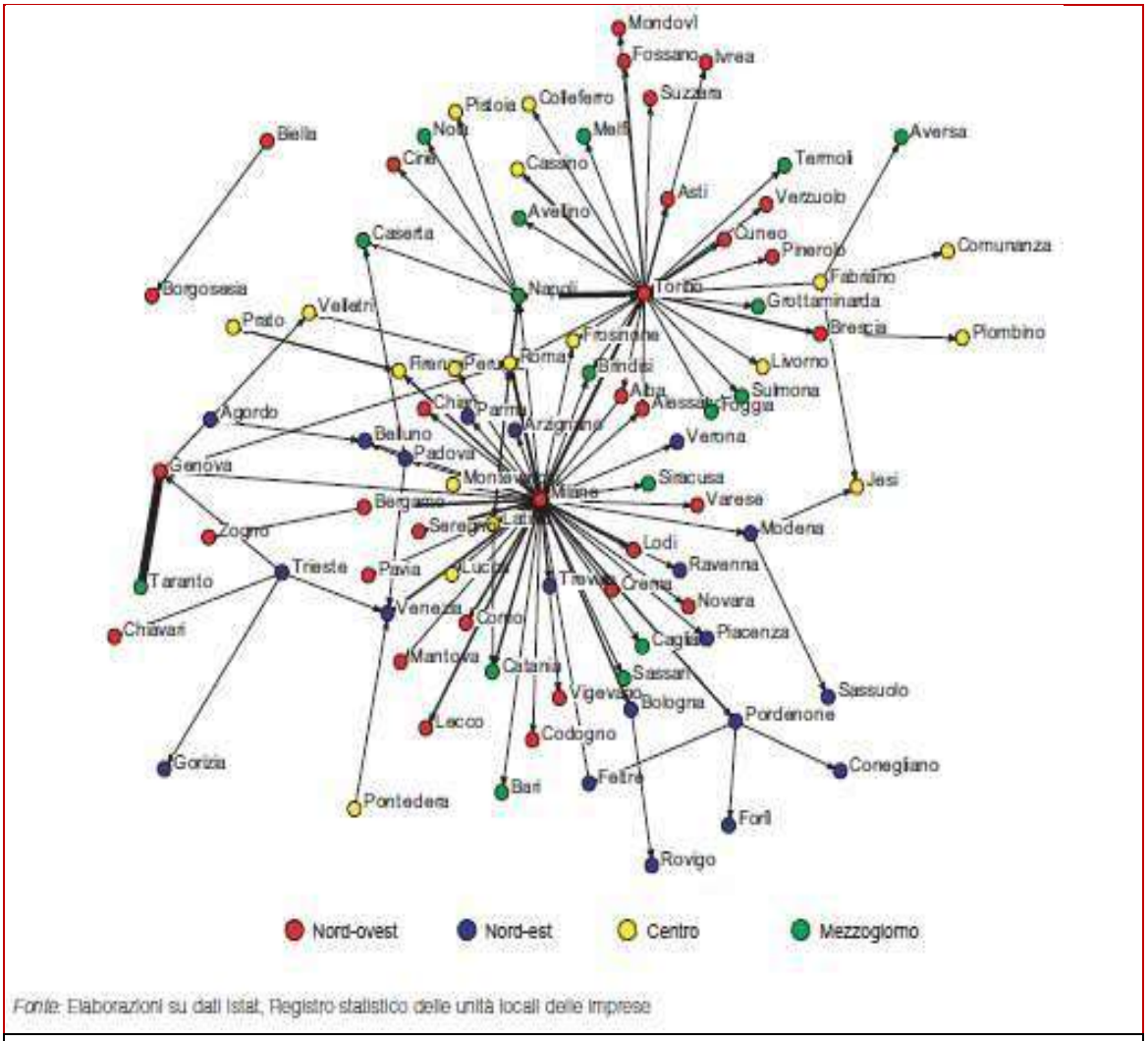


**Figure E3: Italy's districts by technological centres**

**Figure E4: Network multi-localised manufacturing businesses**

Italy: 'Network of multi-localised manufacturing businesses between working local systems' – year 2006 *(weighted value)*




*Fonte:* Elaborazioni su dati Istat, Registro statistico delle unità locali delle imprese

Translated from Italian:

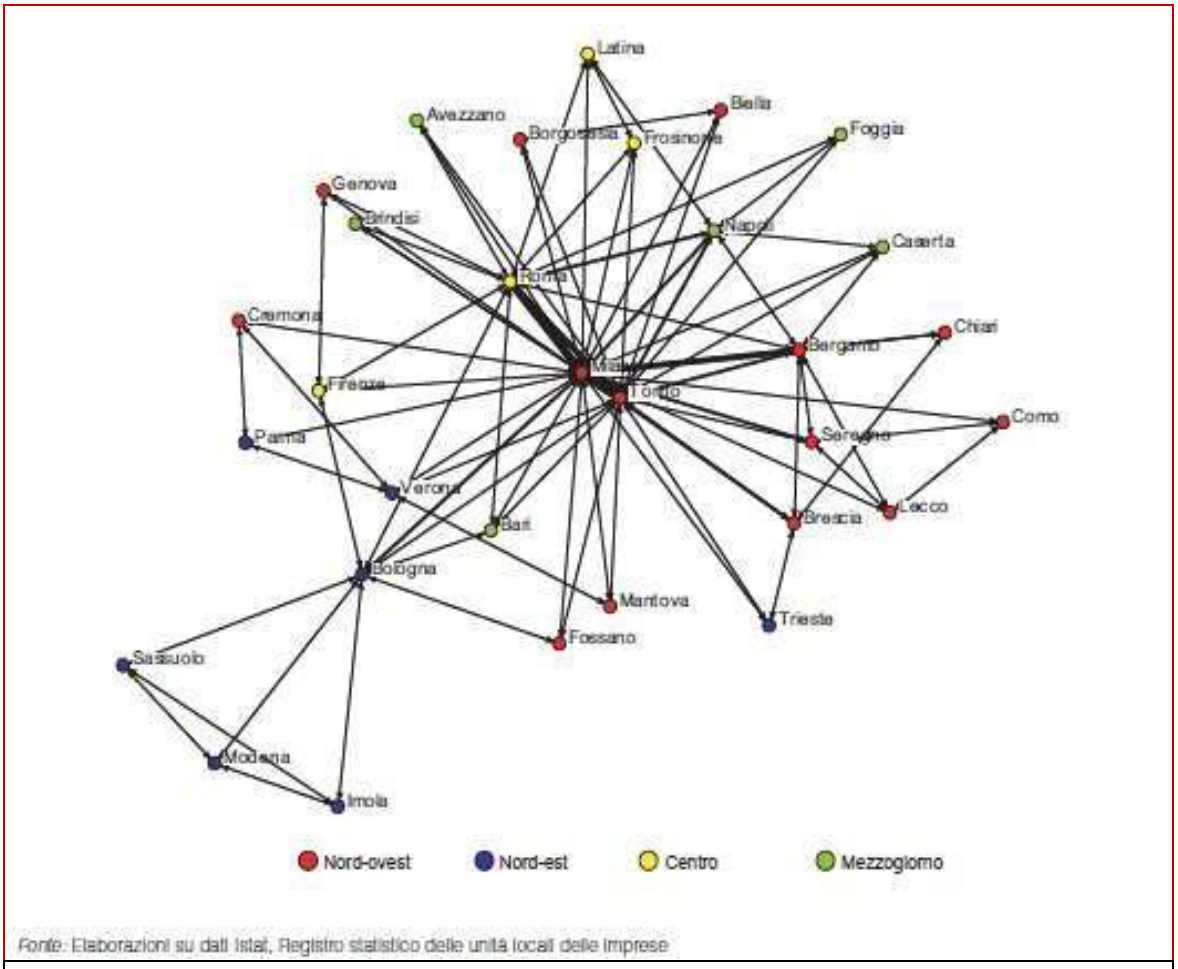
North-west North-east Centre South

Source: Elaboration on Istat data, statistical register of businesses local units

Source: ISTAT, 2009 p. 147

**Figure E5: Cliques multi-localised manufacturing businesses**

Italy: Cliques of multi-localised manufacturing businesses between working local systems – year 2006 *(absolute value)*




Translated from Italian:

S North-west North-east Centre South

Source: Elaboration on Istat data, statistical register of businesses local units

Source: ISTAT, 2009 p. 148

There are 172 districts in Italy, of which six are reported to be in the approval stage, distributed within 13 regions (Carminati, 2006 p.14 and 41). The evidence suggests that clusters' value added contribution at national level is at 27% with 38% arising from the industrial sector. Districts contribute to employment of 25.4% nationally, of which 39% is in the industry sector. At national level, the classification of 'clusters' or 'industrial districts' on a regional level is regulated by national laws (no.317/91, art.36 of 991 – reviewed no.140 of 1999) (Fortis, 2006 cited Carminati, 2006 p.7 and ISTAT, 2005 cited Carminati, 2006 p.7). The Unioncamere (2013 p.49) highlights that in 2011 businesses within districts were 274,055, of which 173,844 represented the manufacturing sector. Furthermore, in 2010, micro, small and medium-sized businesses are reported as being the most representative within districts, accounting for about 99% out of a 209.225 total where micro elements represent an 86% share of the total (Unioncamere, 2013 p.51). Dardanello (2013) reports a reduction in districts' turnover contribution between 2011 and 2012 from 40% to 26%. A reduction of 3.2% between 2010 and 2011 is furthermore highlighted in the number of businesses within the districts for a total of nine thousand elements (Dardanello, 2013 p.15). The financial liquidity of banking institutions is reported in 2012 as being a crucial aspect mainly due to reduced credit amounts and in the application of interest rates (Ricciardi, 2013 p.40).

The following section addresses the banking system with a focus on the cooperative institutions as promoters of the economic and social growth of local communities (Istituto G.Tagliacarne, 2011 p.70).

### Italian banking system: a focus on Cooperative institutions and the CONFIDI

Since the 1990s the banking sector in Italy has undergone a transformation at organisational level due to the free movement of capital and the introduction of the "innovation of computer technology and telecommunications (TIC)" (Albareto et al., 2008 p.5), Indeed, research conducted by Albareto et al. (2008) identified that the changes have had an impact on the whole system with a consequential effect on business reorganisations. The changes have led not only to offer new types of products but also to localisations and aggregations which have in turn increased

the country's coverage. In addition, the evidence has suggested that banks' decisions with regard to credit distribution have undergone a transformation and that the aggregations have interested not only major players within the sector but also small to medium-sized institutions. Of particular interest in the context of SMEs are the cooperative banks, which represent the focal part of this study. The system is characterised by an established cooperative banking system, accounting for a total of 59% of bank branches. 48% of SMEs apply for credit through this channel (e.g. ISTAT, 2011c and Euricse, 2011). In the case of cooperative banks, Tarantola (2009) indicates that within the Italian financial sector, a differentiation should be made between the Rural Banche di Credito Cooperative (BCCs) and the Banche Popolari (BPs), which are still a form of cooperative institution. There are in fact structural differences between the BCCs and the BP financial institutions; Figure E6 provides a synopsis of the elements' taxonomy. The BCCs are governed by a central bank called Iccrea, which represents the holding company, whilst the BPs are old institutions dating back to the XIX century, formed with the purpose of assisting small firms to access credit. The cooperative banks have developed very strong relationship banking and provide loans to vulnerable segment businesses which would otherwise be outside the credit scope. The BCCs are decentralised systems. They operate independently to provide credit mainly to members and as such are 'mutualistic' entities. BPs appear to be independent and represent one quarter of the banking sector; they are similar to commercial banks in their structure and, generally, they have developed a strong relationship with clients, which in most cases are represented by small to medium-sized firms and the artisan segment (Tarantola, 2009 and Gutiérrez, 2008). Reforms are underway to create common rules which take into consideration 'risk management'; it is in fact stated that this financial market segment, as all other banking institutions, has to "…take advantage to accelerate the process of organisational adjustment and of [the] system of internal control, remove problematic factors and enhance [its] own role and own developing potential" (Tarantola, 2009 p. 14).

The Istituto Europeo di Ricerca sull'Impresa Cooperativa e Sociale (Euricse, 2011) highlights that, in percentage terms, cooperative banks (BCC) are highly representative within the banking division and as a number of branches in terms of geographic division. Table E1 illustrates in detail the concentration of this segment's geographic pattern.

**Figure E6: Cooperative banks and banche Popolari**

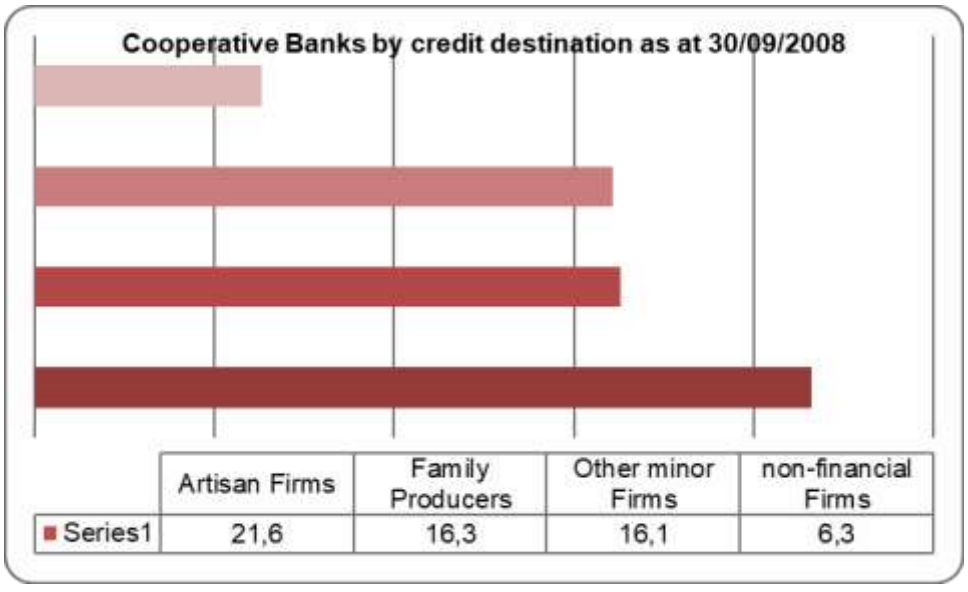
**Table E1: BCC and total number of banks and branches as total % on 31/12/2008 by geographical division**

| Geographic Composition | % BCC (on total banks no. 799) | % BCC branches (on total branches) |
|---|---|---|
| North West | 25.2 | 8.9 |
| North East | 70.0 | 19.6 |
| Centre | 51.5 | 10.8 |
| South | 72.7 | 9.2 |
| Isles | 75.6 | 6.6 |

Source: Abstract from Euricse, 2011 p.174-175

Cooperative bank credits concentrate heavily on small artisan and family businesses, as the following Table E2 portrays.

**Table E2: Cooperative bank credits by destination**




Source: Abstract from Euricse, 2011 p.176

It is reported that COOPs' geographical distribution greatly exceeds the BPs' presence in the territory. The evidence, however, suggests a negative trend, between the years 2008 and 2009, in the number of institutions pattern according

to regional disposition within the cooperative system. These elements are most clearly illustrated in Table E3.

**Table E3: Banks' juridical forms**

| Banks by juridical forms and geographic area (units) | | | | |
|---|---|---|---|---|
| | Bank 'Popolari' (BPs) | | Bank 'Credito Cooparativo' (COOPs) | |
| | 2008 | 2009 | 2008 | 2009 |
| **North West** | 5 | 5 | 57 | 56 |
| **North East** | 12 | 11 | 177 | 173 |
| **Centre** | 9 | 8 | 87 | 83 |
| **South and Isles** | 12 | 13 | 111 | 109 |
| **Total** | **38** | **37** | **432** | **421** |

Source: Adapted from the Banca D'Italia, 2010 p.35 and Euricse, 2011 p.174

For the purpose of this section consideration is placed on the articulated The Italian industrial system develops and grows within a complex socio-economic environment. The Italian system is based on industrial districts or clustering which, as Porter (1990) highlights, favor synergies within the territory. As R.E.T.E. Imprese Italia (2013 p.19) indicates, "The dynamics of the Italian districts' production is still so relevant that it is not possible to disregard it when reflections are made on the Italian economic and production future" as the importance of these types of synergies is necessary to ensure economic and social growth (e.g. R.E.T.E. Imprese Italia, 2013 and DTI, 2002). The clusters' relevance, as an element of economic development, is also recognised by the European Union through the Community Strategic Guidelines on Cohesion, where 'member states' are guided to formally identify 'clusters' and to recognise SMEs' relevance to economic sustainability and wealth (Commission of European Communities, 2008b pg.3-4 and Porter, 1990). Mytelka and Farinelli (2000 p.12) underline that "In the context of sector-based clusters built around the value-chain, relationships between actors have tended to consist mainly in the unidirectional transfer of information from a client to its suppliers". Porter's (1990) view places an emphasis on the 'value chain' by stressing the interconnected links between activities not only within internal business systems but also with the local environments.

Within the Italian SMEs' credit application process, the CONFIDI system assumes particular significance. The CONFIDI operate, as in the case of the cooperative

banks, under the mutual principle and they function as mutual loan guarantee societies to SME members' access to credit applications. They are mutual guarantee institutions (MGI) and are governed by National Law (no.326 of 2003 revised art.10-141/2010). Their objective is to guarantee funds for SMEs and provide connected services. Members pay for service costs to include membership, commissions and fund contributions to cover towards guaranteed credit (Camera di Commercio Industria Artigianato e Agricoltura di Torino, 2010 p.13). Effectively, they play an intermediary role. In fact, there is effectively a 'triangulation' between SMEs, CONFIDI and BANKS. The CONFIDI act as intermediaries between bank institutions and SMEs towards the assessment process for credit application and are therefore guarantors for approved loans. It should, however, be underlined that between the years 2005 and 2009 the number of CONFIDI decreased from 1,045 to 742. The national distribution, as illustrated in Table E4, is even between the North and the centre of the country; the highest concentration representation is in the South regions.

**Table E4: CONFIDI national distribution**

| **Geogra_ phic distribu_ tion** | **2005** | **2007** | **2008** | **2009** | **Relea_ sed guaran_ tees (mls Euro) 2009** | **Incidence commis_ sions on guarantee s (%) 2008** | **Incide_ nce guaran_ tees of CONFIDI over total banks guarante es (% 2009)** |
|---|---|---|---|---|---|---|---|
| North West | 183 | 143 | 134 | 128 | 8,207 | 0.6 | 7.5 |
| North East | 181 | 150 | 110 | 94 | 5,715 | 1.0 | 6.5 |
| Centre | 218 | 183 | 154 | 150 | 4,396 | 0.7 | 6.8 |
| South | 463 | 440 | 394 | 370 | 3,227 | 1.3 (higher risk) | 4.8 |
| **Total** | **1,045** | **916** | **792** | **742** | **21,545** | **0.8** | **6.4** |

Source: Pettinato et al., 2009 p.5 and Mistrulli et al., 2011 p.12,13,16)

Organisations in Italy tend to have multiple banking relationships in an attempt to avoid exploitation and have higher bargaining power.

In the case of SMEs, as the main representatives of the Italian manufacturing industry, Salza in his article (2004) highlights that the peculiarity of the system is that organisations have a propensity to use cash-flows for investment purposes rather than increase the risk by injecting their own capital. Firms tend to retain 'own capital' as a form of guarantee for obtaining credits from financial institutions. Furthermore, it is evidenced that the dependency of SMEs on bank lending to finance ordinary day-to-day business activities might be a limiting factor in their ability to invest. In particular, "The Italian SME therefore appear to be under-equipped in terms of stable financial resources and more exposed to the variability of short-term interest rates and to the fluctuations of the economic cycle" (Salza, 2004 p.1-2). The Banca d'Italia (2011) indicates that there has been a generalised tightening in the conditions applicable for credit to organisations. In particular, the stiffening of credit appears to have been determined by the spread linked to the most risky loans and to the general economic conditions and estimates on businesses activities. These factors have, however, diminished in the first quarter of 2010. Between 2012 and 2013, there has been a tightening of credit to all types of businesses; in particular, towards small entities (Osservatorio Bankimpresa, 2013 p.9).

# Appendix F **Comparing and Contrasting Synopsis – empirical results vs. reviewed literature**

| **Elements - Research Empirical Results** | **Results in line with literature debate /partially agreeing** | **Results contrasting from / adding to the literature debate** |
|---|---|---|
| Start-ups and innovative adversely affected to provide past financial records and creditworthiness<br><br>Results indicate that all SMEs are affected although start-ups, micro and innovative businesses more affected | **Partially in line with:**<br>Deakins et al., 2008<br>(young and innovative)<br><br>**Partially in line with:**<br>Coluzzi et al., 2009<br>(age and size)<br><br>**Partially in line with:**<br>Ferrando and Griesshaber, 2011<br>(age)<br><br>**Partially in line with:**<br>Arraiz et al., 2014<br>(size and age)<br><br>**In line with:**<br>Kuntchev et al., 2013<br>(size and age)<br><br>**In line with:**<br>Atzeni and Piga, 2007 cited in Cenni et al, 2015<br>(innovative)<br>Lee et al., 2015<br>(innovative) | **Contrasting:**<br>Lee et a., 2015<br>(innovative but conceded credit comparable to non-innovative businesses)<br><br>**Constrasting:**<br>Pellegrina et al., 2017<br>(innovative but conceded credit comparable to non-innovative businesses) |
| Credit Crunch<br><br>Results indicate credit crunch from financial crisis but also from external requirements (EBA and Basel III) | **In line with:** Ruis et al., 2009<br>(financial crisis) | **Adds to literature debate**:<br>Credit crunch from external requirements |
| Market power position | **In line with:**<br>Ryan et al., 2014 (market power position) | **Contrasting:**<br>Petersen and Ryan, 1995 – information hypothesis |
| Credit standard tightening linked to Risk negatively affected by high interest rates, cost | **In line with:**<br>European Banking Authority, 2016; Beck and Demirguc-Kunt, 2006; Duarte et al, 2017 and Beck and de la Torre, 2007 | **Contrastin**g:<br>Onu and Uesugi, 2009<br>(Risk does not influence collateral requirements) |

| | | |
|---|---|---|
| to credit and excessive collateral and guarantees | (recognise the listed elements as constraints) | |
| Intangible assets and future profits difficult to value for innovative businesses but also for other types firms as collaterals requested are at times difficult to evaluate | **Partly in line with:**<br>Leet et al, 2015<br>(for innovative business Intangible assets and future profits difficult to value) | **Contrasting:**<br>Leet et al, 2015<br>(for innovative business Intangible assets and future profits difficult to value) |
| Banks lack of trust is induced by standard tightening (this influenced by risk affect collateral, guarantees, ratings, interest rates and cos to lending) and rigor (type information required) | **In line with:**<br>Partly agreeing:<br>Wang, 2016<br>Lack of trust induce excessive collateral | **Add to the literature debate:**<br>Lack of trust spur from the combination of different elements<br>Lack of trust is reciprocal between actors |
| Financing gap | **In line with:**<br>Deakins et al., 2008<br>(financing gap) | |
| Relationship lending | **In line with:**<br>Berger and Udell, 2002; Ongena and Smith, 2001; Petersen, 2004; Elsas, 2005 and Petersen and Rajan, 2002<br>(orientated towards investment towards development and growth) | |
| Opacity element | **In line with:**<br>Roberts, 2015 and Detragianche et al., 2000 | |
| Information Success on a relationship lending approach on loan application assumes the occurrence of a flow of information between actors reducing asymmetry | **In line with:**<br>Bongini et al., 2009; Cotugno et al., 2013; Bartoli et al., 2013 and Kirchenmann, 2016)<br>(flow of information)<br><br>**In line with:**<br>Udell, 2002<br>(reduce asymmetry) | |

| | | |
|---|---|---|
| Collateral | **In line with:**<br>Bonini et al., 2016; Comeig et al., 2015<br>(reduction collateral requirements, interest rates levels, cost to credit) | |
| Collateral in a relationship lending context<br><br>Collateral versus interest rates application (in a relationship lending context)<br><br>Benefits can arise from collaterals and guarantees requirements and on interest rates levels despite firms 'nature and riskiness | **In line with:**<br>Ono and Uesugi, 2009<br>(risk factor scarcely affect collateral requirement) | **Contrasting:**<br>Bester 1987 in Ono and Uesugi, 2009<br>(collateral can mitigate the issue of information asymmetry and adverse selection)<br><br>**Contrasting;**<br>Ono and Uesugi, 2009 and Voordecjers and Steijvers, 2006<br>(SMEs are more likely to commit collateral) |
| | | **Contrasting:**<br>Jimémez and Saurina, 2004<br>(high risk SMEs – application high level interest and absence collateral.<br>Low risk SMEs – require collateral but low interest rates applied.)<br><br>**Contrasting:**<br>Comeig et al., 2015<br>(interest rates might be reduced if collateral is provided)<br><br>**Contrasting:**<br>Comeig et al., 2005<br>(collateral may reduce interest rates levels)<br><br>**Contrasting:**<br>Behr et al., 2011<br>(collateral a way to monitor)<br><br>**Contrasting:**<br>Fredriksson and Moro, 2014<br>(high risk borrowers affect interest rates levels and cost to credit)<br><br>**Constrasting:**<br>Boot et al., 1991 and Berger and Udell, 1990 |

| | | |
|---|---|---|
| | | (collateral is required only to riskier borrowers) |
| Collateral and costs to credit participate to a multiple banking<br><br>Interest rates, ratings and application of rigor over information required as recognised limiting factors to loan application and success concur to multiple banking | **Partial in line with:**<br>Berger and Udell, 1995 and Hrhoff and Korting, 1998<br>(multiple banking strategy a consequence of collateral requirements)<br><br>**In line with:**<br>Rajan, 1992 and Bonini et al., 2016<br>(high costs to credit) | |
| Multiple banking | **Partially in line with:**<br>Berger and Udell, 1995 and Harhoff and Korting, 1998<br>(banking strategy to be a consequence of collateral requirements)<br><br>**Partially in line with:**<br>Rajan, 1992 and Bonini et al., 2016<br>(banking strategy to be a consequence of high costs of credit) | **Contrasting:**<br>Rajan, 1992; Detragianche et al., 2000; Boot, 2002; Ongena and Smith, 2001 and Angelini et al.,1998 cited Castelli et al., 2009<br>(multi banking strategy relates to a relationship lending application as firms wish to avoid the hold-up problem) |
| Local Lending | **In line with:**<br>Agarwal and Hauswald, 2010; Cotugno et al., 2013; Duarte, 2017 and Stein, 2002<br>(local lending can assist in enhancing local synergies – application of qualitative data vs. effective relationship)<br><br>**In line with:**<br>Presbitero and Zazzaro, 2011<br>("strategic theory of relationship lending")<br><br>**In line with:**<br>Becattini et al., 2009; Stein, 2002; Bongini et al., 2009; Boot, 2000, Berger and Udell, 2002; Petersen and Rajan, 2002; Angelini et al.,1998 and Ughetto, 2006 cited in Giannetti, 2012<br>(addresses opacity and asymmetry)<br><br>**In line with:**<br>Becattini et al., 2009; Berger and Udell, 2002; Boot, 2000; Angelini et | |

| | | |
|---|---|---|
| | al.,1998; Alessandrini et al, 2009 and Cotugno et al, 2013<br>(minimises risk)<br><br>**In line with:**<br>Mytelka and Farinelli, 2000; Milani, 2014; DeYoung et al., 2008; Agarwal and Hauswald, 2007 cited in Milani, 2014 and Alessandrini et al 2009<br>(credit quality positively affected by proximity)<br><br>**In line with:**<br>Milani, 2014<br>(addresses adverse selection)<br><br>**Partially in line with:**<br>Hasan et al., 2017; Berger et al., 2015 and Hakenes et al., 2014 (local lending strategy can address the cost of credit and interest rates)<br><br>**Partially in line with:**<br>Berger et al., 2008<br>(opaque firms not necessarily chose local or cooperative banks as their principal institution)<br><br>**In line with:**<br>Mistrulli et al., 2011; Camera di Commercio Artigianato Agricoltura di Torino, 2010; Bartoli et al 2013b and Columba et al, 2010<br>(access to credit becomes more effective) | |
| Hard type data | | **Contrasting:**<br>Milani, 2014<br>(the application of hard data can attenuate the emerging effects of adverse selection) |
| Mutual consideration | | **Constrasting:**<br>Moro et al., 2012<br>(consider mutual consideration in the context of a relationship lending approach) |
| Lending technologies | **In line with:**<br>Bartoli et al., 2013a, Fredriksson and Moro's, 2014<br>(combination of lending technologies benefit actors)<br><br>**Partially in line with:**<br>Udell, 2008<br>(a combination of lending technologies can support a strategy based on | **Constrasting:**<br>Levine, 2002<br>(that lending technologies are not complementary nor can they be influencing one other) |

| | | |
|---|---|---|
| | ‘optimal risk management’. – considers banks but does does not consider SMEs) | |

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