

Exploring the Role of Private Commercial Banks in Increasing Small and Medium Size Enterprises' Financial Accessibility in Developing Countries: A Study in Bangladesh

Khondokar Farid Ahmmmed, Robin Bown

I. INTRODUCTION

Abstract—It is widely recognized that the formal financing of Small and Medium Size Enterprises (SMEs) by Private Commercial Banks (PCBs) is restricted. Due to changing financial market competition, SMEs are now important customers to PCBs in the member countries of the Asian Development Bank (ADB). Various initiatives in enhancing the efficiency of risk assessment of PCBs have failed in increasing financing accessibility in the traditional financing system where information asymmetry is a key constraint. In this circumstance, PCBs need to undertake a holistic approach. Holistic approach refers to methods that attempt to fundamentally change established traditions. To undertake holistic approach, this study intends to find the entire established financing culture between PCBs and SMEs in a new lens beyond the tradition on the basis of two basic questions: “What is the traditional lending culture between PCBs and SMEs” and “What could be potential role of PCBs to develop that culture where focusing on SME financing to PCBs”. This study considered formal SME financing in Bangladesh by focusing on SMEs applying for their first loan. Bangladesh is a member country of ADB. The data collection method is semi-structured and we utilized face-to-face interviews with in-depth branch managers, higher officials and owner-managers of SME customers of PCBs and higher officials of SME Foundation and the Bangladesh central bank. Discourse analysis method was used for data analysis on the frame of thematic discussion fully based on participants' views. The research found that branch managers and loan officers have a high level of power in assessing and financing decision-making. There is a changing attitude in PCB sector in requiring flexible collateral assets. Branch managers (Loan Officers) consider value of business prospect of owner-managers as complementary of collateral assets. However, the study found the assessment process of business prospect is entirely unstructured and linked with socio-cultural settings that does not support PCBs' changing manner in terms of collateral requirement. The study redefined and classified collateral assets to include all financing constructs in a structure. The degree of value of the collateral assets determines the degree of business prospects. This study suggested applying an outside classroom-learning paradigm such as “knowledge tour” to enhance the value of the kinds of collateral assets. This is the scope of PCBs in increasing SMEs' financing eligibility in win-win basis. The findings and proposition could be effective in other ADB member countries and audiences in the field.

Keywords—CCA, financing, information asymmetry, PCA, PCB, financing.

Khondokar Ahmmmed is with the Department of Bussiness Administration, University of Gloucestershire, United Kingdom (e-mail: mzilin.ahmmmed@gmail.com).

SME Financing Accessibility (SMEFA) through PCBs is not only important for small business growth but also it is important for PCB sector [1]. In the concept of principal-agent theory, the SMEs act as agents in financing arrangements with PCBs [11]. Hence, increasing SMEs formal financing accessibility will enhance significant aspects of macro-economic development, small business growth, as well as PCBs' business profitability. Prior research shows that only 18% of SMEs in Bangladesh have some level of access to formal financing [3]. Consequently, the results and recommendations of this study have been developed in order to improve SMEFA among the member countries of the ADB.

Considering the importance of SMEFA, ADB published a report, which demonstrates their concerns in increasing SMEFA, as they have repeatedly failed to increase SME financing [1]. The study recommends PCBs to undertake holistic approaches in SME financing, especially with regards to lending decisions. Such a holistic approach should focus on enhancing the competency of Risk Assessment Teams (RAT) within PCBs. Holistic approach refers to methods that attempt to fundamentally change traditions. This study analyses the barriers to SME financing in developing countries by considering a holistic approach. This research was undertaken as part of PhD thesis at the University of Gloucestershire, UK.

The aims of this study are twofold. Firstly, the paper intends to critically identify the factors that influence the lending decisions of PCBs with regards to SMEs and identify the risks that affect the decisions. Secondly, this paper aims to suggest a theoretical perspective on how such risks could be reduced in order to increase SMEFA. The paper focuses on the First Attempting SMEs (FASMEs) that refer to the group of SMEs whose Owner-Managers (OMs) are either the individual customers of PCBs or maintain business accounts, but have never used the PCBs as a source of finance.

The paper is presented in seven sections. Following the introduction, a theoretical framework is presented focusing on the basic understanding of traditional SME financing setting. The characteristics of OMs and SMEs and the characteristics of PCBs' financing attitudes are the drivers of such traditional setting that is discussed in third phase. Phase four discusses evidences from literature that demonstrates the financing setting of the research context is similar to the theoretical

framework. A brief of the adopted research methodology has been presented in part five. Part six demonstrates findings and discussion. Part seven concludes the paper with key outcomes and implication of the study.

A. Definition of SME

Slight differences exist between pure entrepreneurs and the OMs of SMEs. Entrepreneurs more likely start up their own business with a clear entrepreneurial orientation, innovation and creativeness. On the other hand, OMs either derive a business firm from their family or set up a business without specific business orientation [14]. Within the context of this paper, no distinction is made between SMEs, entrepreneurs and OMs since all forms of small businesses face similar financing constraints. This study focuses on the lending decision not the mode of business entry.

The definition of a SME adopted for this research is the one provided by [24] "A *small business is one which is independently owned and operated, and which is not dominant in its market*" [Page-266]. The principle focus of this study is to identify issues that construct financing obstacles and use a new perspective in order to devise new methods of enhancing the availability of finances for SMEs. Furthermore, the OMs who need finance and appeal for finance to PCBs is the focal point of the research and not theoretical definition.

B. Differences between Small Business and Large Business Financing

The nature of small business finance differs from large business finance [34]. Conclusion of [53] supports the matrix of [34]. The indicators in their matrix included; liquidity, profitability, financing, business risk, and dividend policy. With regards to capital structure, SMEs tend to have higher gearing ratios as compared to larger firms; hence, size is a key factor in the consideration of capital structure. Other attributes of SMEs highlighted by [34] are as follows: -

- Small firms tend to rely on the retention of earnings as a technique of building equity.
- They are characterized by less liquidity.
- Tend to maximize the use of greater amount of debt; and
- Experience higher business risk.

This paper does not approach to the issue that why large businesses are more valued by PCBs. Rather this paper discusses the traditional SME financing with the objective of finding the key risks and developing a holistic approach for SMEFA. The next section discusses four inter-related and established theoretical concepts; principle-agent theory; information asymmetry; adverse selection and moral hazard.

II. PRINCIPLES UNDERPINNING OF SME FINANCING

While financial institutions continue to develop and sell new and innovative products, SME financing remains grounded in four concepts; principle-agent theory; information asymmetry; adverse selection and moral hazard.

A. The Principle-Agent Theory

Though the key focus of principal-agent is on political science and economics [26] the primary theme of the theory assumes some relevance in both debt and equity finance between lenders and borrowers particularly in the case of SME financing [11]. This concept, indeed, reflects the strength and importance of the relation between PCBs and SMEs. Therefore, the principles of SME financing are grounded by the relationship between the two parties. In the relation of financing, the information asymmetric issue was perceived as most influential factor in financing decision-making through the effect of adverse selection morale hazard.

B. The Problem of Information Asymmetry

The information asymmetry problem arises due to an information gap between lenders and business firms where the OMs of firms have more information than lenders about the prospects and/or potential risks of the business [11], [40], [39]. It plays a vital role in the relationship between the principal and agent (PCBs and SMEs) and results in poor financing accessibility due to a number of reasons.

Firstly, due to increased risk and uncertainty, banks need to invest resources in monitoring businesses that they are financing. Due to the additional costs, PCBs may shy away from financing SMEs or they may charge high interest rates. Secondly, banks require strict collateral to cover the additional risk raised by information asymmetry problem. Finally, to avoid risk and uncertainty, banks reject loan applications if they lack adequate information to accurately gauge the degree of risk associated with lending to SMEs [5], [11], [51].

C. Adverse Selection Limits PCBs' Financing Decisions

Adverse selection refers to a situation where SME OMs with riskier business tend to prefer equity financing rather than debt [33], [50]. Due to information asymmetry between lenders and borrowers, adverse selection influences the borrowing decision [12]. PCBs generally endeavor to reduce the negative impact of information asymmetry. They approve the loan applications of small firms by imposing higher rate of interest than ideal risk-adjusted rate of interest [40]. PCB's disregard the ideal risk adjusted rate due to the issue of adverse selection.

D. Risk of Moral Hazard

The concept of moral hazard is linked to the information asymmetric problem. Some OMs of SMEs may have other sources of finance with a low potential risk. This encourages them to undertake projects with higher risks than they normally would [15]. Hence there is the hazard that OMs will provide misleading information to banks in order to secure funding; however, the misleading information is likely to lead to the bank making wrong decision with regard to the firm's prospects and risks.

E. PCBs' Attitude to SME Financing Is Influenced by Information Symmetry

The effect of information asymmetry is a fundamental issue in PCBs' financing decisions that influences PCBs to consider

SMEs as risky customers [40]. The consequence is that larger/global banks are less likely to build up relationships with SMEs as compared to local/regional banks [9], [10], [43], [56].

Secondly, a trend has been established in the banking sector whereby strategic changes have led to a reduction in the empowerment of branch managers with regards to SME lending decisions. Moreover, the lending decisions of branch managers are constrained by strict policy guidelines. So, the bank managers are less able to use the trust that has been built up with local SMEs borrowers. Such trust takes years of interaction and communication to build. The result is that the SMEs, thus, become less important customers to branch managers. Finally, even though the information asymmetry problem has been reduced in developed countries, primarily through better systems and legislation, banks are still reluctant to lend to the SME sector [40]. Therefore, banks' discriminatory behaviour towards SMEs does not entirely depend on the information asymmetric affect. Thus, there could be other factors that disrupt SME financing.

F. Collateral and SME Financing

According to Oxford dictionary, collateral is something pledged as security for the repayment of a loan and is forfeited in the event of a default [66]. Collateral requirement is a basic characteristic of lenders in traditional financing systems in order to mitigate the effect of information asymmetry. Reference [40] found that in the event of financial distress of a firm's projects, banks do not focus on the income stream of a project; rather they may focus upon the value of collateral available due to the risk of default on part of the SME customer.

The degree of risk of adverse selection and moral hazard determines the nature and quantum of collateral assets required. The principal's aim is not to sell the collateral assets of their agents (or guarantors); rather, their aim is to ensure some level of security against the borrower's future prospects. Hence, there is an option to think about collateral assets beyond their traditional forms.

G. Relationship Lending

Another basic characteristic of PCBs is relationship lending. This is a kind of financing system where borrowers have a long-term relationship with banks and the banks have data on the prior borrowing history of such customers. Based on the relationship, PCBs may perceive additional security of repayment and thus be more willing to lend to such customers. The expected future cash flows, accessibility to monitoring the business activities and banks' right to change interest rate and service charge are the basic attributes of relationship lending [25], [54]. Relationship lending has a dark side, which is that the enormous power of lender interferes in applying innovation, creativity and expected growth of firm [38]. However, in the case of FASMEs, there is an option to think about potential ways to start up or accelerate relationship lending.

H. The Problem of Credit Rationing

It refers to the situation when banks limit supply of additional finance as firms' needs. [68]. Banks behave like this when they have reached their business target [2], [38], [50]. However, [32] argued that by this credit rationing system, banks use collateral to achieve their expected pay-off from comparatively low-signal projects where banks have willing to provide funds in higher rate extending the signals of project. References [13], [32], [38] argue that the changing behaviour of banks either show reluctance to provide further loan or impose additional charges in the point of willingness for more profitability as they have already made expectation.

The above discussion reflects that the PCBs' principle is to maximize their return and security in case of any default. Thus, PCBs consider SMEs to be poor credit risks primarily due to a lack of trust. This leads to a gap in the principal-agent relationship and relationship lending is one potential way to reduce this gap. More importantly, it is possible to develop SME financing beyond the traditional model of the PCB-SME relationship.

III. THE DETERMINANTS OF PCBs' LENDING BEHAVIOUR

PCB's intention to lend generally depends on a firm's current condition and business prospect. With regards to the determinants of bank's lending behaviour, [51] concluded that there are six significant determinants that reflect business condition and prospects; age, size, sector/market, legal form, ownership status and geographical location of firms.

A. Characteristics of OMs

Reference [40] states that the entrepreneur is central to a firm, and, with regards to SMEs, the entrepreneur mostly acts as OM. Moreover, in the context of leadership, a clear distinction can sometimes be perceived between entrepreneurs and managers [29]. Consequently the characteristics of OMs are considered as a significant issues with regards to a firm's success and in turn, the accessibility to external debt finances [45]. The significance of OMs in formal financing accessibility and that the characteristics of firms' leaders profoundly impact on the degree of firms' business success [27], [52], [55]. Reference [18] argued that the firms' structure i.e. the culture of the firms is governed by the characteristics of OMs, which affect the operations and thus access to external sources of funds.

Previous studies concluded that age, gender, working and management experience and level of formal education are most important issues that reflect the business prospects, which significantly influence PCBs' decision-making [12], [40], [49], [51].

B. Characteristics of SMEs

Available studies viewed that firms' characteristics are importantly considered in SME financing tradition. Firm size and age, ownership status, location, sector/industry and legal form of business are the mostly informed characteristic of firms that PCBs evaluate in making financing decision for SMEs. Technical efficiency, institutional efficiency, imperfect

competition and dynamic approach [57], [58]; total assets and profits/revenue are key determinants of firm size [59], [60]. Reference [58] viewed that despite the relationship between size and age being linear; aggregately the survival in the future depends on the rate of growth of a firm. Ownership status is another fundamental characteristic of firms that influences PCBs' financing decision. Reference [45] and [61] took the view that separation of ownership diverges the interest of owners which impacts the willingness of using external finance.

The location of firm is critical to be considered [45]. References [45] and [62] viewed that knowledge of local markets and premises, family ties, small capital and transport cost should be counted in deciding firms' location. Enterprises in urban area make good business and earn than firms operate business in local areas [63] and [65]. Net income business firms in rural area are approximately two-thirds that of smaller firms operating in urban environment. Reference [64] found from an empirical study conducted in Australia that entrepreneurs tend to set up their business in the sector in which they have personal choice as their lifestyles.

Reference [51] evidently proved that firms' legal form has significant impacts on firms' growth. The key benefit of incorporated firm is that it quickly achieves the credibility to banks, suppliers and customers. The legal aspect often influences the selection of business operation plan for ensuring future business success [64].

IV. CONTEXTUAL STUDIES ON SME FINANCING

In the case of contextual literature, there are very few academic and valid studies, such as [3], [6], [17], [31], [35], [36], focus entirely on SME development and the facilitation of the SME sector. Whatever the studies are there (non-academic and invalid as the weight and perspective of this research), all reflect the same thing i.e. bank attitude, poor quality of SME and poor financial knowledge [40]. All this literature is actually grounded by the traditional SME business setting and there are no valid and academic studies focusing on increasing financing. Therefore, to undertake holistic approach, a clear investigation is needed, mainly focusing on the interaction between PCBs and SMEs.

A. Theoretical Concepts of the Study

The concept emerged from the theoretical literature is that the SME financing is central to the characteristics of SMEs (Fig. 1). The PCBs' attitudes/principles and characteristics of SMEs and OMs are influenced by each other. The information asymmetric affect is created from the SMEs' characteristics and PCBs' basic principles add value to the problem. The consequences result in strict and high collateral requirements through the risk of adverse selection and morale hazard. By nature SMEs are characterized by poor collateral assets, and PCBs' principles/ attitudes are negative to SMEs, the integrated situation causes poor financing accessibility. Poor financing, then, results in poor characteristics of SMEs. In other word, poor characteristics of SMEs and poor financing accessibility are influenced by each other. Therefore, the

importance of characteristics of OMs and firms could be emphasized in the context to find out new ways to influence PCBs' financing decision-making. This traditional SME financing theoretical concept leads to the research methodology, findings and discussion.

V. RESEARCH METHODOLOGY

This study adopted qualitative research framework. This approach has been followed by in-depth qualitative research informed by the concept deigned from literature. Such an approach is focused on the understanding of human experience [23], [41], [47]. The focus of this research was to revisit the issues associated with the interactions between PCBs and FASMEs regarding extraction of unarticulated constructs that create the SME financing pitfalls. The research collected data by in-depth interviewing on face-to-face basis. Data was collected in the duration of 40 days (5 July to 16 August 2014 in Bangladesh). The researcher went back to some of participants and conducted telephoning interviewing with the participants to get interpretation during analysis regarding clarification of newly emerged concepts and contradiction between information and emerging issues. In-depth interviewing allows the researcher to have a themed conversation with the participants being interviewed [41], [42], [48].

The method that the study used to choose the informants could be defined as snowball method [7], [42]. The study interviewed more than 30 participants.

Thematic analysis principle was adopted for data analysis and discussion. Thematic analysis is effective when data are gathered on observation based on participants' interpretations, visionary feelings or attitude [7], [21], [22]. Hence, the researcher's focus was on the attitude and feelings of participants and not quantifying data. Reference [4] stated that-

"Thematic Analysis provides the opportunity for researchers to move beyond calculating unambiguous words or statements or expressing the ideas." [Page-42]

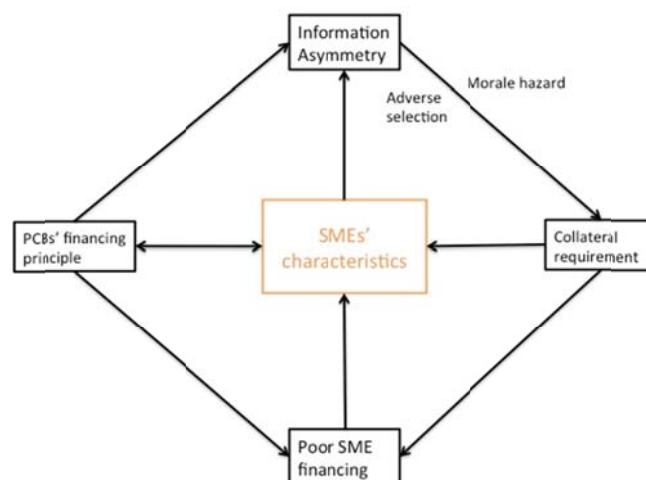


Fig. 1 SME Formal Financing Tradition

Many studies mentioned the information asymmetric affect, collateral and characteristics of PCBs, SMEs and their OMs as fundamental impediments [11], [40], (67); however, this study intends to articulate influential issues beyond testing and quantifying the impediments in increasing SME financing.

VI. FINDINGS AND DISCUSSION

SME financing context in Bangladesh is associated with socio-cultural and political settings. In particular, the financing accessibility to FASMEs is linked with social settings. The reality is that most of the SMEs in Bangladesh tends to be unincorporated and are not structured. Hence, information asymmetry is based more on the personality of the OM rather than business conditions and prospects. A good business condition of a business derived from family does not ensure financing if the prospect is not satisfactory to PCBs. The prospect depends on the capability of OMs that how they can cope with the contextual challenges and how they can use social networking i.e. social capital. Therefore, the information asymmetric problem and its consequences of adverse selection and morale hazard is not associated with business structure, rather, it is associated with OMs' personality traits and socio-cultural settings. So, LOs face challenge in assessing the information asymmetric affect because personality traits are attached with mental structure of OMs that is vulnerable with socio-cultural conditions. Unincorporated structure and social influenced business operation system is the basic character of FASME business culture. The credit rationing, rate of interest and other hidden charges are not the primary important issue to FASMEs because their needs are crucial, they are experienced in using other external finances with higher rate of interest from other sources such as NGOs. Collateral accessibility and relationship lending is important in the context; however, due to collateral assets requirement, the financing is interrupted and FASMEs do not have option to start relationship lending. Therefore, the outcomes of the study discussed on the basis of the above issues that construct the SME financing culture between PCBs and SMEs. In this study, the SME customers and collateral assets are redefined according to the contextual research text.

A. 'SME Customers' in the Context of this Study is Different

It was found that the definitions of SMEs that are informed by literature differ from the definition of 'SME customer'. Only the SMEs who apply for loan to PCBs are defined as SME customers. There are four types of SMEs. One group never seeks loans due to a negative perception of an interest based lending system. Another group shuns loans since they believe that debts are the key reasons for business failure. Some of the SMEs believe that bank financing is only for elite business, so they never apply for a loan despite having the willingness to use bank finance. However, the majority of SMEs need finance and do apply for loans. Thus, the SMEs who seek finance from PCBs are considered as SME customer to PCBs. The findings are all about the last group.

B. The Acceptance and Retention of SME Customers have Benefits for PCBs

The need to reduce the gap between the principal and the agent is crucial in order to improve SMEFA. There has been a proliferation of PCBs in Bangladesh with the result that the formal banking sector is very large relative to the size of the economy. The high level of competition implies that new loans and customers are important in order for the PCBs to survive and grow. There is, thus, a change in the attitudes of PCBs with some degree of flexibility with regards to collateral requirements; however, such flexibility has not been effective in increasing the availability of financing for FASMEs. The reasons are some newly articulated issues that lead to a constant SME financing trap cycle.

C. Collateral Is a Precondition of Financing Accessibility

In conventional financing system, accessibility to collateral is the precondition of accessibility to formal finance. The nature and quantum of the collateral depends on the degree of trust between the SME and the PCB. According to the research text, collateral refers to the issues that ensure good business performance and security of return from business profitability. One of the participant states that-

"...our target is not to collect our money by selling collateral assets of OMs...our actual target is to develop business that they can provide our return from their business profitability...the collateral assets is only for any unsuitable future events...we only can feel trust on them..."

Therefore, requirement of collateral assets is important because it creates trust. In present financial market, a trend of collateral-free loan and loan with flexible collateral assets is being introduced. In this changing situation, LOs consider other factors to assess trust. The other factors, indeed, create trust that land, assets and guarantors do. All the other factors are also defined as collateral assets. Hence, collateral assets are diverse in the study. The values of collateral assets are indeed, the key component of making financing decision for FASMEs.

D. Different Kind of Collateral Assets Determine Financing Decision

All the collateral assets are classified as Physical Collateral Assets (PCA) and Cognitive Collateral Assets (CCA).

1. PCA

PCA refers to the issues that create security in LOs and are physically and institutionally justifiable, such as equity and level of education. PCA is divided into two kinds- Materialistic Physical Collateral Assets (MPCA) and Attributive Physical Collateral Assets (APCA).

MPCA includes business turnover, amount of products, machineries, tools, the firm premises and other fixed assets such as land and buildings, product/goods and other assets. However, land is often considered as a key MPCA to PCBs. Both OMs and their guarantors are required to own a satisfactory amount of MPCA in terms of monetary value.

APCA refers to the characteristics of OMs and their firms; for example, the OM's educational qualifications.

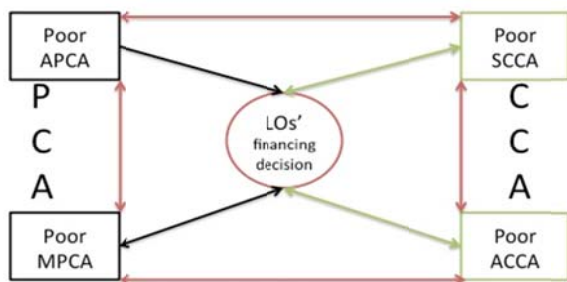


Fig. 2 Kinds of Collateral Assets

2. CCA

Even if the OM has sufficient MPCA and APCA, a bank loan is not guaranteed due to the existence of CCA. CCA is divided as ACCA (Attributive Cognitive Collateral Assets) and SCCA (Social Cognitive Collateral Assets).

ACCA refers to a kind of awareness and approach that can keep the OMs away from unethical business practices, political involvement and other social inconsistencies. Involvement in such problems can lead to poor Learning Attitude (LA), poor Self-Efficiency Approach (SEA) and poor Managerial Manner (MM). All these three ACCAs directly affect the business condition, determine business prospects and influence LOs' financing decisions. SCCA refers to such a quality by which OMs can effectively use the social capital in a balanced manner. The key resource of the social capital is trust between the OM and other stakeholders such as customers, suppliers, employees and business partners. Both kinds of collateral assets are assessed directly and indirectly. The degree of each collateral asset value influences and/or acts as complementary of other collateral asset's value.

For PCA, there is legal guarantor system. A guarantor not only provides materialistic security of loan to PCBs, indeed, he/she provides the guaranty of CCA value of OMs. A guarantor, by nature of human being, critically assesses risks of business prospects and business capability of OMs before assigning the guarantor agreement. So, existence of the value CCA is unconsciously declared by guarantor and same way LOs consider that. LOs importantly consider CCA when OMs have poor value of MPCA and APCA. The reality is that in the case of poor/no MPCA, LOs have negative attitude to cognitive assessment of CCAs, where risk of morale hazard emerges. Thus, it could be argued that CCAs affect LOs financing decision-making but it is undefined and undiscovered. This classification of collateral assets will lead PCBs to set up a template/matrix for counting collateral assets value. By official use of CCA, LOs will be relaxed and morale hazard affect will be reduced in making financing decision, as they will specifically rely on the template/matrix to value the CCAs.

LOs assess the value of CCA by collecting and analyzing soft information about OMs and their business; however, this term is not defined to both the LOs and OMs. OMs only

believe that the MPCA is the only condition for bank finance. After introducing the kinds of collateral assets, people will understand collateral assets as something more than MPCA, which are APCA, ACCA and SCCA. The introduction of these kind of collateral assets will help to break their longstanding belief. They will critically start believing the kinds, uses and values of collateral assets and assessment process of CCA. So, defining and classifying collateral assets as new style will be effective for PCBs to draw template/matrix for grading the value of different kind of collateral assets, OMs will nurse their collateral assets and researchers will tailor the mechanism for critically assessing, counting and enhancing the kinds of collateral assets.

Readers may argue that the value of MPCA is only considered for loan; and introducing new term will only create jargons in the arena. This study intends to argue that value of CCA is also assessed in the case of established business. Established businesses own good value of APCA and MPCAs that ultimately determine the value of CCA. The background of the OMs of established business is actually good value of CCA that helped to develop their business. So, in terms of established firms, CCA is indirectly/unconsciously assessed and justified by LOs. The FASMEs who have been struggling for fund have more or less CCAs but they do not have option to prove that because they do not know that they have that. Therefore, the CCA is an existing phenomenon between SMEs and PCBs; this study only discovered that.

E. Loan Officers (LOs) Are Key Decision-Makers with Regards to SME Financing

There is a gradual increase in the use of credit scoring systems in developed countries, which was viewed as major impediments by [40]. However, in the Bangladeshi context, LOs continue to exercise significant power and authority when it comes to SME loan decisions. After assessment and field level justification of all the documents from applicants, they finally make decision from branch level and send the successful application to head office (RAT) with recommendation. In the case of negative decisions, LOs do not send the application to head office. Thus, LOs are the key decision-makers in the financing cycle.

The assessment process in Bangladeshi context is the key ground of the study. The trap cycle emerged from literature is, indeed, the key problem for SME financing that was found in research text. However, research texts inform some additional constructs that show the financing issue is not only associated with banks' official determinants, rather, it is associated with socio-cultural and political condition. The information of the concept "Information Asymmetry" emerges from assessment process. Fig. 3 portrays the entire landscape of financing central to LOs' financing decision. The trap cycle also indicates the possible areas that can be improved by PCBs' contribution. The figure demonstrates that value of APCAs and MPCAs influences the LOs' financing decision both directly and indirectly. The degree of value of APCAs and MPCAs affect LOs financing decision. The integrated value of PCAs determines the business condition, which directly

influences LOs in making financing decision. Particularly, the value of MPCAs reflects degree of business prospects to LOs that affect their financing decision.

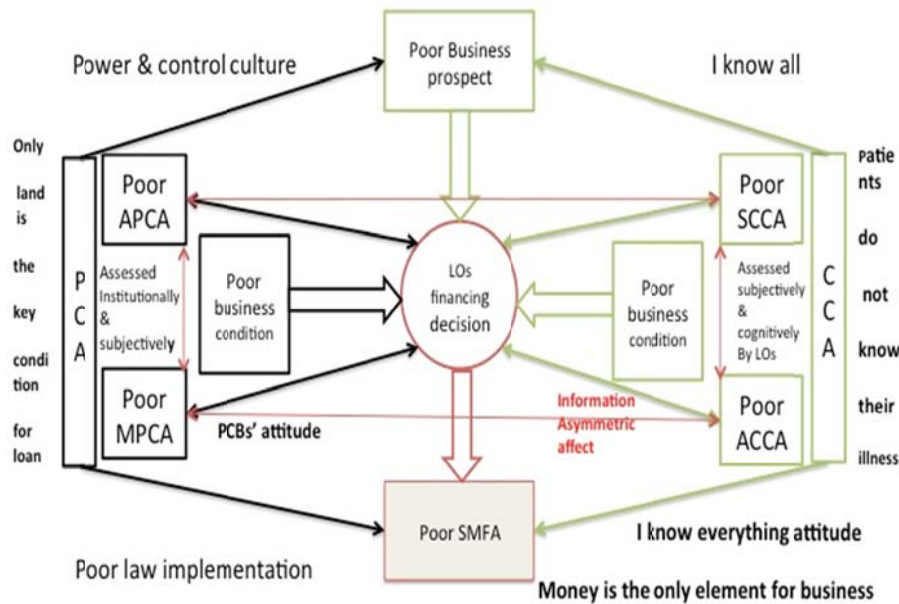


Fig. 3 SME Financing Trap

The findings about the APCAs less likely differ from the existing literature. The level of education was interpreted as important for both the business growth and the probability of repayment. Reference [49] defined OMs as craftsman (below secondary school) and opportunist (graduate and above). The Bangladeshi SME sector mainly consists of craftsmen due to social attitudes. Most graduates move to the capital, Dhaka, to secure jobs. Social attitudes imply that a graduate jobholder has better prospects of marriage and social advancement than the owner of a small business. Furthermore, such attitudes also imply that LOs place significant emphasis on the level of education when taking lending decisions. Legal and managerial structures are poor in SMEs owned by craftsmen; hence, the APCA further suffers. So, as the classification of [49], Bangladesh is full of craftsman-headed SMEs. However, research has found that effective training programs could be complements or substitutes of level of education, particularly, in term of innovation, ambitions, long-term business plan and management.

Despite having contending views, this study found the common belief that “land is the main condition for financing”. This belief created a propensity in OMs to buy land even by using their business capital and debts. In the context, using the land as collateral is restricted in two ways. Firstly, the value of land and other assets owned by SMEs is, generally, low [11], [40], [51]. Secondly, using land as collateral asset is associated with socio-cultural issues, such as; inheritance and succession; socio-economic condition; religious values; and legal issues. The other form of MPCA (machineries, tools, products, inventory, etc.) is assessed, justified and valued by LOs. The importance placed on APCAs, ACCA, and SCCA influences the LOs' estimates of MPCA.

Bangladesh is perceived as a social-capital intensive country by which small business runs but it is not considered importantly. Considering social capital accelerates business success [30]. The main resource of this kind of social capital is trust and networking. People trust others such as supplier, customers, partners and family members. Such networking and relationship results in the development both “bonding”, and “bridging” social capital [28]. This trust is grounded on the “I know all” type of attitude. However, excessive reliance on social capital puts businesses at risk. For example, “Baki Bikroy” is a traditional cultural concept in Bangladesh. This is a Bengali term that people use in the case of selling product on a verbal deed of paying later. However, business fails if the verbal agreements are not honoured and SMEs are unable to collect their debts. LOs consider this factor in terms of business prospects and assess cognitively and subjectively. Poor SCCA directly and indirectly affects LOs' decision-making.

The main two common beliefs such as “I know everything” and “money is the only element” were found as the key ground of poor ACCA. These two beliefs keep them away from learning and available facilities around them that create poor managerial manner. The combined value of CCA creates poor business condition and reflects poor business prospect that influences LOs' financing decision. CCA is completely cognitive matter that LOs are unable to clearly assess. Human mind is changeable and mysterious and risky for Moral Hazard [40]. However, LOs try to assess the value of CCAs by collecting soft information about family/personal life, involvement in unethical business, political involvement and addiction from their suppliers, neighbouring business firms, neighbours, friends and other social communities. Information

asymmetric affects emerge from this informal, subjective, cognitive and unscientific assessment proses. As LOs are ethically responsible to maximize the recovery rate, they want to be on safe side to keep their job secured. Thus, they better understand declination than approval.

F. Poor Collateral Assets and LOs' Attitudes Lead to the "SME Financing Trap"

As discussed above, this research shows that the SME sector is short of all four types of collateral assets. PCAs are unusable since they are associated with socio-cultural and political settings. CCA is a "patients do not know their illness" type problem. The key bottleneck of the poor use of CCA is that the OMs do not have awareness about the CCAs that they own, and which the LOs consider important. The results of this study also indicate that LOs never explain to unsuccessful applicant that their applications failed due to a lack of CCA. In the views of LOs-

"...we cannot directly explain about their character and personality...it is indecent... at least they are our customers..."

It is understandable that LOs are reluctant to discuss what might be perceived as negative personality traits; however, this factor creates a cycle where both the PCBs and SMEs struggle; one to increase lending and the other to receive funding (Fig. 1). Within the trap cycle, each value of the four kinds of collateral assets influences the value of others. Therefore, it is consistent that improving value of each collateral asset does not affect all collateral assets. The results of this research show that improving value of MPCAs does not necessarily increase the value of APCA, ACCA and

SCCA. However, improving value of SCCA, ACCA and APCA (e.g. through training) ensure that MPCAs increase as the business expands and grows. Reference [46] supports the findings of this study that the value of SCCA, ACCA and APCA is improvable [46].

The PCBs do not have the ability to change national socio-cultural and political conditions; however, this research does indicate that OMs can avoid negative influences while exploiting favourable socio-cultural influences. It is unrealistic that PCBs can increase SMEs' and OMs' MPCAs and APCA; but, as indicated by this study, they can increase the CCA and SCCA (CCAs).

G. Developing CCAs Is Simple and Cost-Effective for PCBs

The unawareness of OMs about the value and importance of CCAs is one of the main reasons of the gap between LOs and OMs. Patients do not know their illness because doctors do not let them know their illness. Hence, due to such attitudes on the part of the LOs, the cycle has remained constant over years. As one LO says;

"If we let them know about our internal assessment process and requirements, they will try to create fake documents and artificially show the good business condition and collateral assets."

The only way to break this cycle is to reduce the gap between the LOs and OMs by focusing on the wrong perceptions of the OMs. These perceptions are; "land is the only condition for bank loan"; "money is the only element for business"; "I know everything" and "I know all". Enhancing CCA is critical to change these perceptions and break the cycle. Fig. 4 shows how the CCA could be developed.

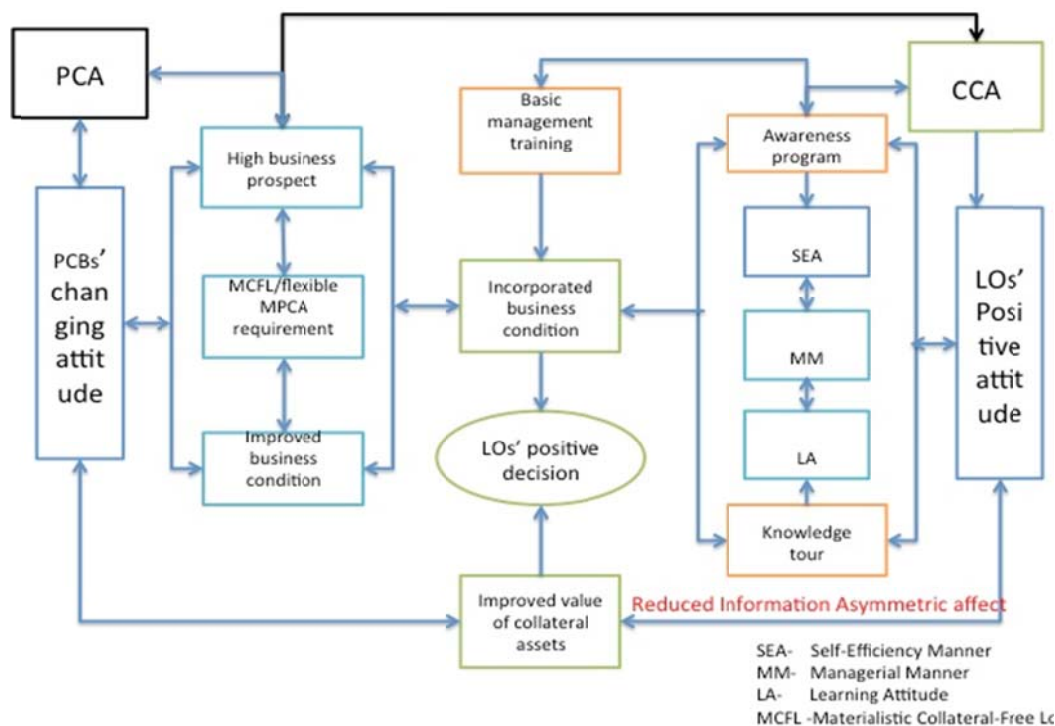


Fig. 4 Financing Trap Breaking Model

Based on the interviews conducted as part of this study, it is apparent that OMs tend to find non-classroom based learning more effective. One such programme is the “knowledge tour”. It refers to a programme in which declined OMs of one branch of PCBs will be referred to visit established SME customers of another district branch led by LOs through a branch to branch networking system. Awareness programme and basic management training could be provided during the “knowledge tour” in host district. It could be in a ‘workshop’ type gathering on the premise of any of host firms’ premise. The basic management training, awareness programme will be conducted in the tour. Topics covered in workshops could include; SME success stories and methods to overcome obstacles; different product markets; innovation; and emerging opportunities. This kind of tour programme will change the OMs’ longstanding beliefs, enhance value of CCAs and enhance Learning Attitude (LA), Self-Efficiency Approach (SEA), and managerial Manner (MM) (Fig. 4).

The breaking of longstanding belief will break the trap cycle in two ways. Firstly, the improved CCA will reshape the business plan that will be visualized in changing firm condition, MPCAs and OMs’ attitude. Secondly, the improvement will change the longstanding attitude of LOs and the PCBs, which helps to determine the value of MPCAs and CCAs and some of APCA. The entire improvement of OMs attitude, PCBs’ attitudes and LOs’ attitudes will finally soften the trap cycle and financing accessibility will be increased. Therefore, enhancing the CCAs of OMs is better than enhancing the efficiency of RATs.

H. Effectiveness of the "Knowledge Tour" Program for OMs

This kind of non-classroom based learning would be convenient and effective for OMs as people are reluctant to be attentive to a formal lecturer and expect outside informal learning [20], [37]. Moreover, the aim of the programme should be to change perceptions. The programme should be focused on theory. It is envisaged that such a programme will enable OMs to change their views and, moreover, induce them to learn better management techniques. As a second step, such training could be provided by the PCBs or other public and private training providers by collaborating assistance of PCBs. Moreover, OMs tend to respect educated people; as one LO stated;

“it is very tough to motivate people to get training but if there is possibility to get fund they will come...our clients respect us...as a manager if I invite owner of a firm, he must come”

I. PCB's Contribution is Pragmatic

PCBs will provide the training programme with their declined SME customers with keeping the door open for other SMEs in the business environment. The slogan could be “A business knowledge tour to finance”. The message is that after getting tour, the LOs will continue inspiring and orienting entrepreneurship together with monitoring, observing and evaluating the post training consequences. On the basis of that once, LOs will offer a considerable size of Materialistic

Collateral-Free Loan (MCFL) or loan with flexible MPCA on the basis of relation with OMs that was started from the tour to later sixth month, for example. This is the start up of a relationship lending that will be gradually growing up on the basis of the performance. In this concept, The OMs’ openness will be created and LOs can understand business related issues and provide informal consultancy type help and understand the need and security of finance. Thus, this openness narrows the scope of producing information asymmetric affect [67].

The effective implementation of the concept will inspire OMs to open/switch account to the tour-sponsoring bank and will join the sort of training programme on the hope of finance. Today’s small agent (business firm) will use more money in the field on behalf of principal (Banks) within two to five years. The combined feelings created from tour to receiving a sum of finance will inspire the OMs to learn more, for example, sector-wise skill/management training.

Implementation of the concept will create a culture where both side is close to each other on the basis of relation and trust, which will create a new kind of bonding social capital (relation among LOs and OMs within a business environment) and bridging social capital (between SMEs and available training providers and facilitators) [28], [19]. Some available training providers include public (SMEF- SME Foundation, Bangladesh; Bangladesh central Bank), private (such as MIDAS) and intra-governmental organization/NGOs (such as ADB, JAIKA, IDA). The acquiring facilities will be beneficial for sponsoring PCBs because their agents will use the knowledge in using PCBs’ finance in the field.

It is true that PCBs provide tax to government and facilitating SMEs is the government responsibility. The government initiatives take time and widely generalized in the interest of government. PCBs will undertake short term facilitating initiatives for their own interest, for their own SME customers for long-term benefits, as today’s customers will be large tomorrow. This is the ideological stance of the concept.

The Bangladeshi financial sector is extremely competitive with sixty commercial banks (including 14 state-owned banks) and 31 financial institutions. PCBs are at risk of survival. LO and branch managers are constantly looking to sell products to established businesses. However, since such businesses are few, the returns on such products are low and the profitability of PCBs is under threat.

This study found that due to survive and grip the opportunities in the local and global business environment, established business needs instant finance; however, PCBs are slow due to the fear of information asymmetric affect and other bureaucratic issues. Global banks’ tailor their business strategy focusing on established business in big city area [40]. They are comparatively quicker in taking financing decision for established businesses’ appeal with high interest rate. Consequently, a tradition emerges in established and large business firms that they tailor their business strategy with several alternative (internal and external) sources to avoid PCBs’ finance. As stated by one participant (Secretary General, SMEF);

“PCBs...particularly local banks...will fall into more danger after five/six years and...because people now do not wait for their finance...they have to fight with global organisations ...they do business with alternative financing ways...banks have to go out of Dhaka...they have to go to small business...they have to change their attitudes...actually they should have at list thirty years long-term business plan but they do not have that. They do everything for instant profitability...”

Despite having too many kinds of innovative products, the PCBs are unable to increase SME financing because their strategy is tailored within the constant trap cycle. They are recommended to invest a part of money (budget for enhancing RAT) for breaking the cycle. Likewise, governments' initiatives is to facilitate the entire SMEs sectors, PCBs' responsibility is to nurse their own SME customers to maximize their profitability through enhancing OMs' money using capability in the field. Unfortunately, PCBs have been trying to develop their RATs to collect naturally growing SMEs in traditional frame. Therefore, enhancing capability of agents could be argued as the initial holistic approach for increasing SME financing.

The proposition of PCBs' contribution for enhancing CCAs of SMEs is not completely subjective. This idea emerged from an emerging holistic approach that is being taken by some of PCBs in Bangladeshi financing market. Some of PCBs (e.g. BRAC bank LTD, One Bank LTD) have started allowing up to BDT1.5 million for male headed and up to BDT2.5 million for women-headed SMEs without collateral assets (according to this study, it is MCFL- Materialistic Collateral-Free Loan). This is an instruction of BB (Bangladesh central Bank) but not mandatory. This instruction is not being followed as instruction but PCBs have been trying for their own interest. OBL (One Bank LTD), MBL (Mercantile Bank LTD), BRAC and some other leading local banks have been trying to enhance communication with their SME customers. They sometimes arrange for seminar type programme. As one managers from these banks (OBL) stated;-

“We sometimes arrange for some seminars with SMEs ...we try to understand their problems...”

The endeavour to enhance relation with SMEs is new in the context. This reflects the realization of PCBs about their challenge and doing something going beyond the tradition. This study only intends to accelerate their thinking in a complete form of the kinds of collateral assets.

VII. CONCLUSIONS

The comprehensive set of collateral assets identified and classified by this study will enable PCBs and LOs to assess OMs and SMEs through a matrix. Moreover, the perceptions of the OMs may also be changed through the “knowledge tour” programme. The kinds of collateral assets will provide a clear idea to OMs that how much (and how many kinds) collateral asset they have and what steps they can take to secure financing. The research also found that all kinds of collateral assets are not increasable and consistent for taking initiatives for banks. It is not consistent and possible for PCBs

to increase MPCAs of OMs prior to providing finance. The APCA are given (such as age, gender, level of education and so on) and all of them are not changeable. However, the legal/incorporated structure is changeable and it depends on changing value of CCAs.

The PCBs only can change the SCCA and ACCA. SCCA is a kind of approach the lives and grow in human brain. The degree of SCCA value directs the OMs to use social capital in a balanced manner for their business dealings. ACCA is also another kind of collateral that lives in human brain and motivates OMs to avoid the dark sides (e.g. social misconducts) of the society, personal life complexity and unethical business approach. Contextually, Poor Learning Attitude (LA), poor Self-Efficiency approach (SEA) and poor Managerial Manner (MM) are main three constructs that are created from socio-cultural context [8] and directly affect business and LOs financing decision-making. This is the reality of this financing context due to poor implementation of law and power and control framework. It should be mentioned that innovation and creativity and entrepreneurial orientation is not individually and respectively mentioned with the three because innovation, creativity and entrepreneurial orientation are natural talent of OMs that is unused/unexplored due to the socio-cultural context and poor SCCA and ACCA. The poor value of the kinds of collateral assets, and unawareness about the existence of them, indeed, created the “SME financing trap cycle”.

As the way of breaking the “trap cycle”, this study presented, “SME trap cycle breaking model” in which “awareness programme”, knowledge tour” and “basic management training” are key component. Though, these three programmes are mentioned respectively, the knowledge tour is the key point. The awareness and basic management training will be provided in the tour. The primary feature of the tour is that it does not invite people to a teaching; rather, it does invite people for joining a tour. This tour package will break the longstanding beliefs and OMs will be able to create a clear entrepreneurial orientation including reshaping their longstanding mental model of business operation and financing determinants and process. In the duration from tour to later sixth month (roughly estimated) monitoring will create a relation between LOs/PCBs and tour attendant OMs. The increased value of collateral assets after tour will be reflected in their changing business condition and influence LOs' attitude that will introduce a relationship lending with a small amount of MPCL or loan with flexible MPCAs. The eventual consequence is that the principals will get a group of reliable agents to use their money in the field through this kind of relationship lending process.

It is evident that the training and development context is only Dhaka-based and OMs are discouraged to be self-efficient because they do not have available facilities around them. However, branch of PCBs are not Dhaka-based, rather, across the country. So, the knowledge tour type outside classroom learning will be provided throughout the country. In other words, the training context will be available across the country. The Dhaka-based training provider also will outgrow

as they will get more learners after introduction of new definition and kinds of collateral assets that increase learning attitude and self-efficiency manner of OMs.

The key issue of the SME financing trap is that OMs are unaware about their CCA and APCAs. This new definition and classification of collateral assets will theoretically discover OMs' own CCAs and they will nurse, improve and use their collateral assets in business activities and loan application. Their existing business condition will improve, create prospect and enhance value of MPCA. Hence, FASMEs will be eligible for finance by their self-power with the possibility to enhance relationship lending with lenders. The introduction of kinds and definition of collateral assets will be theoretically introduced in business sectors beyond the SME customers and awareness will be massively built up which influence creating personality traits in boyhood of future entrepreneurs [16]. Therefore, in near future, the kinds of beliefs will be massively changed into new belief that land and assets only one collateral asset out of four and money is not only material for business success. The entire context will create such culture that differs from traditional SME financing trap. In broader view, these outcomes will have a positive influence on social changes.

A. Implication of the Study

This study considered how personality traits lead to problems of SME financing due to the dependence on non-material collateral assets. Moreover, with regards to PCB's and LO's lending decisions, personality traits are more important than business prospects. In financing context of all kind of economies, SMEs are classified as two kinds. The group who have been using PCBs' finance and who have been trying to receive finance. The latter group is larger (82% in Bangladeshi context). Thus, the outcomes of this study will be applicable to the majority of FASMEs. The PCB's financing behaviour and SMEs' collateral assets are similar with the socio-economic and political culture of many developing countries. The ground of this study is the findings of Asian SME finance monitor countries [1]. Thus, the findings from Bangladeshi context will be applicable for all ADB member countries. The outcomes could be implacable for all countries as the structure of basic human nature is universally similar [44].

B. Limitation and Extension of Work

This paper is based on an empirical study conducted in Bangladesh within time and resources constraints. Though the study was based on research conducted by the ADB on its member countries; the results may differ from other countries due to socio-cultural differences and political factors unique to Bangladesh. Furthermore, the study was conducted on the basis of participants' worldview on the context giving priority to articulating constructs that tailored the traditional financing trap. The new approach/concept of PCBs' contribution was supported by participants but not justified by employing grounded theory. To justify by using grounded theory, an action research approach is needed, which requires practical

implementation of the concept. Therefore it is recommended that this form the basis of future research in this area.

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