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Irish SME sector and its
Implication**

by

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Abstract:

Relationship banking involves the provision of financial services by an intermediary that a) invests in obtaining customer-specific information, often proprietary in nature; and b) evaluates the profitability of these investments through multiple interactions with the same customer over time and/or across products (Boot, 2000).

We assess the presence and impact of relationship banking from an Irish SME perspective. We trace how significant patterns can be seen across several dimensions of the lender/business relationship using data for the year 2005. These dimensions include the duration of lender/business relationships and the cost of finance.

JEL classification: G21 - banking . L26 - Entrepreneurship

Keywords: relationship lending

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INTRODUCTION

More than 99 percent of all business enterprises in the EU are categorised as small and medium sized enterprises (SMEs) and this is particularly true in Ireland where they account for 97 percent of all firms (Small Business Forum 1996). SMEs are generally characterised by the opacity of their operations and have a strong reliance on bank finance. Relationship intermediation is used by banks to ease resulting information asymmetry problems and the extant literature suggests that such intermediation can improve both the availability of bank finance and financing terms. Relationship banking involves the provision of financial services by an intermediary that a) invests in obtaining customer-specific information, often proprietary in nature; and b) evaluates the profitability of these investments through multiple interactions with the same customer over time and/or across products (Boot, 2000).

The present study contributes to the literature with an assessment of the presence and impact of relationship banking from an Irish SME perspective. The paper is structured as follows: the next, second section presents the theoretical motivations for and empirical evidence on relationship banking and is followed by section three, which describes the sample and method used. The fourth section reports on the findings and a discussion of the results before the conclusion is presented.

LITERATURE REVIEW

Lenders have several tools at their disposal to help minimise the risks of dealing with potential borrowers (Coleman, 2000). One such tool is ‘intermediation’ which can be executed through two types of lending, namely relationship lending and transaction lending (Stein, 2002; Cole, Goldberg and White, 2004; Berger and Udell 2006; Udell, 2008). Relationship lending is suited to more opaque enterprises and relies on the gathering by the lender of ‘soft’ information about the firm through a series of multiple interactions. This type of informal knowledge enables the lender to make better decisions on a credit application by the firm. In contrast, transaction lending relies more on ‘hard’ information as borrowers undergo a more formal structured process when applying for loans including the provision of specific financial information and collateral as these form the basis for underwriting of the lenders decisions (Elyasiani and Goldberg, 2004.)

Relationship banking has been measured by Petersen and Rajan (1994), Cole (1998), Degryse and Van Cayseele (2000) and Binks and Ennew (1996) through a series of variables namely the length or duration of the relationship (‘duration’), the breadth or scope of services sought (‘scope’), the degree of concentration of borrowing (‘concentration’) and the extent of participation in the relationship (‘participation’). A summary of the empirical evidence on relationship banking is presented overleaf in Table 1.

Table 1: Empirical evidence on the presence and impact of Relationship Banking

Author(s), Year	Country/ Context	Main Findings			
		Duration in years	Impact of Duration	Impact of Scope	Impact of Concentration
Horiuchi et al.(1988)	Japan (1972-83)	30	n/a	n/a	n/a
Petersen and Rajan (1994)	US (1987)	10.8	Positive impact on credit availability	Choice of bank for specific services	Concentrated relationship lowers borrowing costs
Sjögren (1994)	Sweden (1997)	> 20	n/a	n/a	n/a
Petersen and Rajan (1995)	US (1987)	11	n/a	n/a	Concentrated relationship lowers borrowing costs and reduce liquidity constraints
Berger and Udell (1995)	US (1988-89)	11.39	Positive impact on borrowing costs	n/a	n/a
Binks and Ennew (1996)	UK (1992)	n/a	n/a	n/a	Participation in the banking relationship positive impact for growing firms
Blackwell and Winters (1997)	US (1988)	9.01	Positive impact on borrowing costs	n/a	Concentrated relationship lower borrowing costs
Cole (1998)	US, (1993)	7.03	n/a	n/a	Concentrated relationship enhances credit availability
Binks and Ennew (1998)	UK	Participative firms incur lower interest rates v non-participative	n/a	n/a	n/a
Angelini et al (1998)	Italy (1995)	14	n/a	n/a	Concentrated relationship enhance credit availability
Harhoff and Körting (1998)	Germany (1998)	± 12	n/a	n/a	Concentrated relationship lower borrowing costs and enhance credit availability
Elsas and Krahnert (1998)	Germany (1992-96)	22.2	No impact on borrowing costs	n/a	n/a
Ongena and Smith (2000)	Cross country data (1996)	n/a	n/a	Scope has a positive impact on lending	Significant variation in number of relationships across countries
Degryse and van Cayseele (2000)	Belgium (1997)	7.82	Negative impact on borrowing costs	Scope has a positive impact on cost of credit	n/a
Ongena and Smith (2001)	Norway (1979-95)	(15.8 - 18.1)	Firms likely to end the relationship as it matures	n/a	n/a
Lehmann and Neuberger (2001)	Germany (1997)		Negative impact on borrowing costs		n/a
Bodenhorn (2003)	US (1844-1860)	4.2	Positive impact on borrowing costs	n/a	n/a
Elsas (2005)	Germany (1992-96)	18	n/a	n/a	Concentrated relationship enhance credit availability
Hanley, Ennew and Binks (2006)	UK (1996-2002)	15	n/a	n/a	n/a
Hernandez-Canavas and Martinez-Solano (2006)	Spain (1999-2000)	16.8	Negative impact on borrowing costs	n/a	Concentrated relationship lower borrowing costs
Peltoniemi (2007)	Finland (2002)	9 years	Positive impact on borrowing costs	n/a	n/a

Duration reflects the degree of relationship intensity over time. In theory, the longer the relationship exists between a borrower and a lender the greater the information flow between the two parties which should lead to an increase in banks willingness to provide funds, thus increasing the finance available to the firm (Berger and Udell, 2002) with empirical support shown for this by Petersen and Rajan (1994) and by Degryse and Van Cayseele (2000). However, a long relationship can generate a lock-in problem with the incumbent bank having monopoly power over the borrower (Ongena and Smith, 2001).

The duration of Japanese and Continental European bank relationships with small firms tend to be greater than their counterparts in the US with the mean duration in Japanese companies of almost 30 years (Horiuchi, Packer and Fukuda, 1988) and of 22 years in German companies (Elsas and Krahn, 1998). The estimates for Sweden are for over 20 years (Sjogren, 1994) and 14 years in Italy (Angelini, Di Salvo and Ferri, 1998). In contrast, most of the US estimates of duration are for between 7 and 11 years on average (Petersen and Rajan, 1995, Blackwell and Winters, 1997; Cole, 1998) and for nine years in Finland (Peltoniemi, 2007).

In addition to interactions over time, relationships can be built through interaction over multiple products (scope) which have information generation implications and may affect contract terms (Degryse and Van Cayseele, 2000). Ongena and Smith (2000) find a positive relationship between scope and the number of lenders in a business-bank relationship which suggests that firms choose a particular bank for a specific financial service.

In a similar vein, the number of bank relationships can serve as an indicator for the presence of relationship lending and is based on the premise that maintaining an exclusive bank relationship promotes the development of close ties between bank and borrower (Elsas, 2005). Here the commonly used proxy in the literature for the number of lenders is the “concentration of borrowing”. Ongena and Smith (2000) note that in the studies conducted in Sweden and Norway, a maximum number of six bank relationships was found, while the majority of firms in Italy, Portugal, and Spain maintain at least six bank relationships. This motivated the former to study the banking relationships across 20 European countries where they found that Italian firms on average had 15.2 relationships and Norwegian firms had the lowest average of 2.3. In their study of Italian SMEs, Angelini et al. (1998) found the average number of lenders to be 2.4. Compared to the Italian results, Harhoff and Körting (1998) found that German SMEs maintain relatively more exclusive borrowing relationships, where German firms borrow on average from 1.81 banks.

Degryse and Van Cayseele (2000) use a variable, “main”, to measure the strength of the financial relationship and they use the scope of the relationship as criteria to decide whether the relationship qualifies as that of a main bank. A main bank is one which provides 80 percent or more of a firm’s products. They posit that a main bank relationship should improve the accuracy of the bank’s information and hence reduce the monitoring costs.

The final measure of relationship banking is a willingness to participate in the relationship, a variable drawn from interaction-based literature. Binks and Ennew (1996) developed metrics to gauge the level of participation in UK banking relationships and while participation is evidently a multi-faceted concept, its essential elements were held to be a willingness to communicate and a willingness to share information.

Berger and Udell (1995) note that a test of whether banking relationships affect loan rates is in fact a joint test of whether (i) prospective lenders gather valuable information from

relationships; (ii) they use this information in pricing loans; and (iii) this information is reflected in the observed loan rates (Cole, 1998).

The duration of the banking relationship is shown to have a significantly positive impact on loan rates for US SMEs by Berger and Udell (1995), Blackwell and Winters (1997) and Bodenhorn (2003) and in the Finnish study of Peltoniemi (2007) which contrasts with the Belgian evidence of Degryse and Van Cayseele (2000), the German study of Lehmann and Neuberger (2001) and the Spanish evidence of Hernandez-Canavas and Martinez-Solano (2006) which concur with the hold up problem hypothesis. This evidence questions the merits of long banking relationships between small firms and their banks which are more prevalent in bank dominated countries. Rather surprisingly there is limited evidence to suggest that risk-cost reductions are passed along to the firm over the course of the relationship. Instead it suggests that the value of previously accumulated private information can increase or decrease after some time as the firm establishes a track record (Diamond 1991) or that the marginal value of additional information may increase or decrease over time (Elsas 2005).

The existence of strong support for the single/main bank hypothesis is found where an exclusive banking relationship exerts a positive impact on loan rates to small firms. Petersen and Rajan (1994) in a US study have documented evidence for exclusive bank relationships as do Blackwell and Winters (1997). Further evidence exists for Belgium in a study by Degryse and Van Cayseele (2000) and for Spanish SMEs in a study by Hernandez-Canavas and Martinez-Solano (2006). In a similar vein, Ennew and Binks (1996, 1998) show that UK firms who participate in banking relationships incur lower lending costs compared with non-participative firms having controlled for other financing variables, firm size and the degree of business risk.¹

In summary there is a considerable volume of work which examines the presence of relationship banking in the US, Continental Europe, Japan and the UK. Whilst significant evidence exists to support the prevalence of lender/business relationships, few studies document the implications of relationship banking on the availability and cost of borrowing for the small firm sector. To our knowledge, no study of this phenomenon has been carried out for Ireland which is a unique setting. In particular, the study examines the extent to which Ireland differs from the Continental banking system and hence strong lender/business relationships.

DATA AND METHOD

The main objective of this study is to investigate the presence and significance of relationships within the Irish business banking market. The study focuses on two regions in Ireland, Dublin and the South-East, the former is considered an urban region in contrast with the South-East which is predominantly rural. This facilitates a comparison of rural and urban financial intermediation as Petersen and Rajan (1995) establish that credit constraints are less severe in rural areas citing great information availability about small businesses and their managers.

A sample size of 600 firms was used representing approximately one per cent of the population and stratification was employed in order to ensure the sample was representative; the final sample comprising 400 SMEs from Dublin, and 200 SMEs from the South-East. Additionally the sample was stratified to reflect the clusters of firms within the South-East, broken down by county, and Dublin, broken down by area code. Both of the more focused breakdowns followed the proportions set by the Dun and Bradstreet register (2001). With the two levels of clustering, it was necessary to sample at two different stages. The sample within

the clusters was drawn using systematic sampling, where every n^{th} firm was selected depending on the size of the cluster. Table 2 below demonstrate the sample breakdown within the two regions and the respondents also

Table 2: Original Sample and Respondents

Firm location	Sampled firms		Respondent firms	
	No	percent	No	percent
Dun & Bradstreet Register				
South East	200	33.4	56	34.3
Dublin North	110	18.4	29	17.8
Dublin South	270	45	75	46
Co Dublin	20	3.2	5	1.9
Total	600	100	163	100

A tailor-made questionnaire was administered through the postal system in early 2005 to the owner managers which achieved a 27 percent response rate. A series of analytical tests for non-response bias were carried out similar to those outlined by Armstrong and Overton (1977) with no significant differences emerging.

The purpose of the study was to seek factual data as well as the desire to gauge the opinion of respondent SMEs. With this in mind, quantitative data was naturally sought and this required a survey which facilitated wide distribution. .

The questionnaire employed was designed based on both the review of the literature and methodological approaches adopted within the relationship intermediation literature. To ensure it was easy to follow the survey was split into two sections, titled ‘Relationship with Banks’ and ‘Bank Financing and Firm Characteristics’.

Appendix 1 contains the instrument used. A pilot study was conducted with disproportionate stratified systematic sampling employed to identify fifty firms split evenly across Dublin and the Southeast regions. This was operated in such a manner to ensure an adequate number of firms responded from both regions. The results indicated that only a few minor changes were required which were incorporated and the questionnaire was finalised and made ready for distribution.

RESULTS

Profile of the respondent firms

The sample comprised of 163 SMEs, 34 percent from the South-East and 66 percent from the greater Dublin Area of which 23 percent were micro, 61 percent small and 16 percent were medium sized enterprises with more micro firms in Dublin and more medium sized firms in the South East. Respondent businesses have a mean age of 21 years and mean size of 32 employees. Firms in the South-East appear, on average, to be older and larger than their Dublin counterparts and have a greater proportion of manufacturing firms. The split between manufacturing and services is 30/70 with the three main sectors of Business Services, Wholesale and Construction accounting for up to 57 percent of respondent firms. The average growth rate of these firms over the past three years is approximately 17 percent with

businesses in the South-East deemed to have experienced faster growth rates than their Dublin counterparts.

Evidence is shown of high levels of interaction with the local branch, account/relationship manager and branch manager levels. This holds for both regions with firms in the South-East demonstrating slightly higher levels of interaction.

With 93 percent of firms adopting at least one alternative mode of banking, it is not surprising that this has resulted in fewer branch visits. Reasons cited for not using alternative modes included lack of awareness of any advantages from doing so, that the online and tele-banking services offered by their bank were poor and one firm stated that *'internet does not give the personal touch'*. In addition to not being aware of the benefits one firm that uses their banks online services comments that *'A constant source of annoyance with all our banks is having to pay for internet banking. I cannot understand why we have to pay when we are reducing the banks costs'*.

When asked about the type of information banks sought when first opening a bank account to when applying for the first loan or further additional loans, respondents cited that banks place a strong emphasis on the owner's investment type, on their detailed business plan and projected cash flows at the initial stage of opening an account. Upon application for the first loan, a lender's main priority appears to be on firms' projected cash flows, the detailed business plan, and sales projections. Alternatively, the financial statements (Profit and Loss and Balance Sheet) are deemed more useful when additional loans are sought and over the course of the ongoing banking relationship.

Given the considerable tendency to request information at the time of the first loan, it would appear that banks gather data for loan-decision making and thus relationship banking could provide an important mechanism for gathering the data necessary for reducing information asymmetries. When asked about their perception as to why banks gathered information, the majority of respondents view it positively with 79 percent seeing it as part of the bank's ongoing monitoring process, 52 percent as a mechanism of enhancing the bank's trust in the firm with just 21 percent seeing it as a way for banks to gain more power over the business.

Borrowing Patterns

Up to 21 percent of respondents have had no bank borrowings over the last three years and some of the reasons cited for this ²

- (a) *'Banks are a bad source of financing/loan products; other sources of finance are better (e.g. Equity, EU schemes)';*
- (b) *'Banks do not provide loan or overdraft or working capital to SME software companies – the only way to finance is to sell equity';*
- (c) *'Our business is constantly focused on retaining a positive cash flow so that we don't have to pay the bank for excessive charges on overdraft facilities' and*
- (d) *'We retain relatively high amounts of cash in the company (relative to turnover), to ensure that we can cash flow almost any scale of project, even in the event of a substantial delay in receipt of payments from customer. Therefore, we are effectively our own bank, this situation has arisen because the bank (and others we have approached) are not prepared to offer an unsecured overdraft facility...'*

Table 3 suggests that approximately half of the firms responding did not get a bank loan to start their business. Significantly more firms in the South-East region sought their first loan at the same time as opening the business account.

Table 3: Stage at which first loan was sought

	South East	Dublin
	%	%
Never	5.5	19.4
With account opening	43.6	28.2
Within 6 months	3.6	4.9
Within 12 months	16.4	5.8
At a later stage	30.9	41.7
<i>Total</i>	<i>100.0</i>	<i>100.0</i>

Firms appear to use a variety of loan products as demonstrated in Table 4 below with bank overdrafts representing the most popular instrument and similarly the financial product most valued by businesses. The other most widely used product is the credit card whilst invoice discounting is rated very highly by those who use it.

Table 4 : Loan Importance

	No. of Firms	Average Rating Min=1 & Max =5	Not Important %	Of little Importance %	Moderately Important %	Important %	Very important %
Bank loan < 5years	40	2.93	32.5	5.0	20.0	22.5	20.0
Bank loan > 5 years	47	3.23	25.5	4.3	12.8	36.2	21.3
Working capital	35	3.26	28.6	2.9	14.3	22.9	31.4
Overdraft	84	3.87	7.1	6.0	14.3	38.1	34.5
Commercial mortgage	32	3.16	28.1	3.1	15.6	31.2	21.9
Hire Purchase	40	3.00	25.0	5.0	25.0	35.0	10.0
Invoice Discounting	35	3.00	45.7	2.9	2.9	11.4	37.1
Supplier finance	22	2.91	68.2	0.0	9.1	13.6	9.1
Credit Cards	58	1.95	10.3	17.2	20.7	32.8	19.0
Other loans	3	3.3	0.0	0.0	0.0	33.3	66.7

Further analysis of the costs of the products reveals how Hire Purchase (HP) and leasing are the most expensive sources of finance while bank overdrafts manifest the greatest variation in cost. There is considerable variation in terms of loan volume where up to 90 percent of loans for greater than five years are in excess of €100,000. Conversely, 54 percent of bank overdrafts, the most popular type of finance, amount to less than €50,000 with 56 percent exceeding that amount. Unsurprisingly, firm size is positively related to loan size.

Up to 66 percent of firms believe that they would need finance for future expansion with a great number of Dublin respondents (78 percent) reporting this to be the case *viz-à-viz* those in the South East (41 percent). This result is not surprising given the composition of the firms in each region. Rather surprising is that more small and medium firms (over 70 percent of each) cited the need for additional finance in contrast to the micro firms (55 percent). Of those seeking funding in the near future up to 92 percent believe it is available, suggesting no major difficulties in sourcing finance. When asked about what the financing terms they would be prepared to endure in order to gain finance, the results suggest that firms in the South East are willing to undertake the most severe deterioration in conditions (collateral required and interest rate charged) in contrast to their Dublin counterparts. Measures of liquidity constraint demonstrate that there is a greater tendency for this to exist within the South East sample than in Dublin.

In summary approximately 21 percent of SMEs in this sample exhibit no bank borrowings over the past three years for various reasons including the lack of a borrowing requirement, company policy on borrowing or access to alternative sources of finance. Of those who borrow, most do so at a later stage in their relationship with the bank. The bank overdraft facility is the most popular source of loan finance. This financial product also accounts for the greatest volume of credit from lenders. Firms do use a variety of loan instruments, especially to fund working capital. The cost of finance varies considerably across the different sources used, with HP and leasing depicted as the most expensive sources. Access to finance does not appear to be a problem for respondents and most do not appear to have liquidity constraints. Up to 42 percent of firms agree that relationship banking has had a positive impact on the firm’s development, with 39 percent remaining neutral on the matter while approximately 21 percent disagreeing with this statement.

Relationship Characteristics

The findings suggest that SMEs across both regions maintain relatively exclusive banking relationships as up to 73 percent have been with their current bank for more than 10 years. The average duration of bank/SME bank relations for the South-East sample is 19.4 years compared to 17.9 years in Dublin. Table 5 suggests that firms in the South-East are more likely to maintain longer relationships whereas in Dublin relationships are more fragmented over the duration. This result is not surprising as South-East firms are older on average but the difference is not statistically significant.

Table 5: Duration of the Banking Relationship

	South-East %	Dublin %	Total %
1-5 Years	8.9	13.1	11.7
6-10 Years	14.3	15.9	15.3
11-20 Years	37.5	27.1	30.7
21-30 Years	7.1	18.7	14.7
More than 30 Years	32.1	25.2	27.6
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

(χ^2 value=5.85, p-value=0.21)

The average number of products and/or services procured by firms in this study from all of their banks is 2.60. No significant difference appears between the average number of products procured by firms in Dublin (2.57) vis-à-vis the South-East (2.64). Similar findings are revealed when the focus is placed on services and products sourced at a firm's main bank with an average of 2.44. Moreover, firms in the South-East appear to source, on average, 2.5 products at their main bank compared to 2.41 in Dublin. However, it appears that the larger the firm, the greater the number of products sought.

Respondents were asked to identify the financial institutions they use as either a main bank (a bank with whom they conduct 80 percent or more of their financial transactions) or non-main bank (dealings account for less than 80 percent). The average number of banks servicing the respondent SMEs is 2.15, suggesting that firms deal with more than one bank. The consensus in the literature is that SMEs tend to have fewer bank relationships than large enterprises. This also proves to be the case within this sample.

Approximately 32 percent of the respondent firms deal with two banks, which is similar to the 35 percent found by Ongena and Smith (2000) in their comprehensive analysis of the number of bank relationships across firms and countries. Hence, the majority of firms in both studies engage with one or two banks. Ongena and Smith (2000) found that 58.7 percent of firms deal with one or two banks compared to 71 percent in this analysis. They assert that the variation in the number of banking relationships held by firms is due to the nature of the banking system and judicial systems also, ie firms in countries with relatively stable and unconcentrated banking systems have more banking relationships in contrast to those in strong judicial systems with strong creditor protection.

Firms in the South-East on average appear to engage with more banks (2.36) compared to Dublin firms (2.04). While there is only a marginal difference between the two findings and ultimately the mean number of banks for both regions is two banks, the difference is statistically significant at the one percent level. The average number of banks increases with each size class micro (1.58), small (2.18) and medium (2.85). Hence, the larger the firm, the more banks it tends to use, a finding consistent with Ongena and Smith (2000) findings for both Irish firms and their wider sample-frame for firms from 20 countries. Harhoff and Körting (1998) also find that the mean and median number of bank relationships increase with firm size for German firms. They indicate two reasons for this, with the simplest explanation relating to the fixed costs for maintaining a borrowing relationship.

The number of lenders providing finance is used to gauge the level of concentration. Additionally, the percentage of the business borrowings held with the principal lender and whether the principal lender is the firm's main bank are explored for a greater understanding of the extent of debt concentration. Up to 52 percent borrow from just one bank while a further 17 percent borrow from two banks with a mean of 1.46 and mode of 1 which suggest that banking is relatively concentrated in this sample. Across the regions, respondents in the South East appear to borrow more and do so from more than one bank; up to 75 percent of Dublin firms borrow from just one bank vis à viz 62 percent in the South East. As with Elsas (2005), the number of lenders appears to increase significantly with firm size. Further tests of the level of concentration reveal that for 81 percent of firms their main bank is also their principal lender.

Firms' participation in the banking relationship is assessed by their willingness to provide financial information on a regular basis to their bank, to having regular meetings with them and discussing any financing issues they may have with their bank. While participation is

evidently a multi-faceted concept, its essential elements were held to be a willingness to communicate and a willingness to share information (Ennew and Binks, 1996).

From Table 6 overleaf it appears that the majority of businesses surveyed do seem to participate with the financial institutions to the extent indicated. Over 80 percent of respondents agreed with the statement ‘*that it is important to discuss excess borrowings with the banks*’, while 57 percent of respondents agreed that ‘*it is important to provide banks with regular and timely information*’ with only 11 percent stating that they would ‘*prefer to avoid contact with the bank or bank manager*’. A discriminant function was applied with participation as the discriminant value and the factors ‘provide information’, ‘avoid contact’ and ‘discuss excess borrowings’ as the predictor variables with the value of this function significantly different for participating and non-participating businesses at the one per cent level.

In summary, SMEs in both regions appear to maintain relatively exclusive banking relationships, with relatively high levels of interaction between the parties despite most using Internet and/or telephone banking (up to 57 percent visit their on a daily or weekly basis). Furthermore there is evidence of SMEs sourcing multiple products from their main bank in particular and of concentrating the current account with the main bank also. There is also strong evidence to support debt concentration with a mean number of lenders of 1.46 and a mode of one. While there is a tendency for the bank to gather data from firms at the application stage (for an initial loan), there is additional evidence to conclude that the bank updates its firm specific information over the duration of its dealings with the firm.

Table 6: Level of Participative Banking

Statement	Average Rating Min=1 & Max =5	Disagree %	Neutral %	Agree %
It is important to discuss excess borrowings with the bank manager	4.06	3.16	12.03	84.81
It is important to provide the bank with regular and timely information	3.48	16.25	26.88	56.88
You prefer to avoid any contact with the bank or bank manager	2.20	66.24	22.93	10.83

Number of observations: 160,160, 157 respectively

While there is evidence that the bank requires a lot of information about the firm’s management at the outset of the relationship, the number of firms asked to provide such data falls as the relationship matures. This would infer that banks no longer gather information about the firms’ management on a formal basis. Rather that they gain this information informally. Information is deemed to play an important role in the establishment and maintenance of the banking relationship. SMEs perceive information gathering by the bank to be an important part of the monitoring mechanism but it is also considered a process enabling the bank to sell more products/services to business customers.

Firms appear willing to participate in the lender/business relationship and 79 percent agree that ‘*Banks are vital in the life of small businesses*’. Finally, SMEs perception of interacting with their bank reveals that the majority agree that meeting with bank personnel is beneficial and that they would seek the advice of the bank at time of financial distress.

Impact of the banking relationship on lending terms

Following Berger and Udell (1995) the only interest rate investigated is the overdraft rate; this is due to the fact that it is deemed a relationship and not a transaction driven loan. Tests are conducted for the impact of a number of variables on overdraft interest rates and these include the length or duration of the banking relationship, bank concentration, firm characteristics, overdraft size and finally the role across the two participative clusters.

In Table 7 overleaf interest rates are shown to vary with the duration of the banking relationship. The shorter the duration the greater the likelihood of paying higher rates, and the difference is statistically significant at the five per cent level (test χ^2 value=22.036, dof=12, p-value=0.024). This result is consistent with the US evidence of Berger and Udell (1995) and Blackwell and Winters (1997), the Italian evidence of Angelini et al (1998) and Finish evidence of Peltoniemi (2007) and contrasts with the Belgian study of Degryse and Van Cayseele (2000) and the Spanish study of Hernandez and Martinez-Solano (2006).

Table 7: Impact of duration characteristic across the overdraft interest rate

Overdraft interest	Mean Duration	Duration 1-5 yrs	Duration 6-10 yrs	Duration 11-20 yrs	Duration 21-30 yrs	Duration > 30 yrs
	%	%	%	%	%	%
4-5.9 %	27	0.0	14.3	16	50.0	45.8
6-7.9 %	14	44.4	35.7	28	8.3	12.5
8-9.9 %	17	44.4	28.6	40	4.7	41.7
10-11.9 %	12	11.1	21.4	16	0.0	0.0
12-13.9 %	-	0.0	0.0	0.0	0.0	0.0

In addition, it would appear from Table 8 that firms in multi-bank relationships pay higher rates compared to those with an exclusive relationship. This result is consistent with Petersen and Rajan (1994) who tentatively show that a single banking relationship lowers borrowing costs. Similar to their findings, the difference is not statistically significant. Accordingly, there is no major evidence to suggest that borrowing from the main bank will result in lower interest charges. No significant differences arise between interest rates charged by lender type (principal or ancillary lender). Similarly no significant difference arises in the price of finance when the proportion borrowed from the main lender is less than or greater than 80 percent. In fact there is some weak evidence of lower rates when the principal lender is not the main bank and when the proportion borrowed from the main bank is less than 80 percent. If anything, our evidence leans in the direction of the Hanley, Binks and Ennew (2006) study who found exclusive business-bank relationships to be counter-productive for small firms where lenders with higher concentrations of SME finance charged higher rates.

Table 8: Impact of bank concentration across the overdraft interest rate

Overdraft interest	One bank	Multiple banks	Principal lender is main bank	Principal lender is not main bank	Proportion borrowed from main lender > 80 %	Proportion borrowed from main lender < 80 %
	%	%	%	%	%	%
4-5.9 %	22.6	30.2	27.1	33.3	25.0	34.5
6-7.9 %	16.1	28.3	24.3	25.0	21.2	31.0
8-9.9 %	54.8	30.2	38.6	33.3	44.2	24.1
10-11.9 %	6.5	11.3	10.0	8.3	9.6	10.3
12-13.9 %	0.0	0.0	0.0	0.0	0.0	0.0
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

An examination of the difference in interest rates and firm size reveals a significant inverse relationship as medium sized firms incur lower rates in comparison to micro enterprises. The differences is statistically significant at the ten per cent level, (test χ^2 value =11.225, df=6, p-value=0.102) and is tabulated in Table 9 and in Figure 1 overleaf. Micro enterprises appear to pay higher interest on their overdrafts than either their small or medium sized counterparts. This finding is consistent with the results depicted in Table 7 of duration having a negative but significant effect on interest charges.

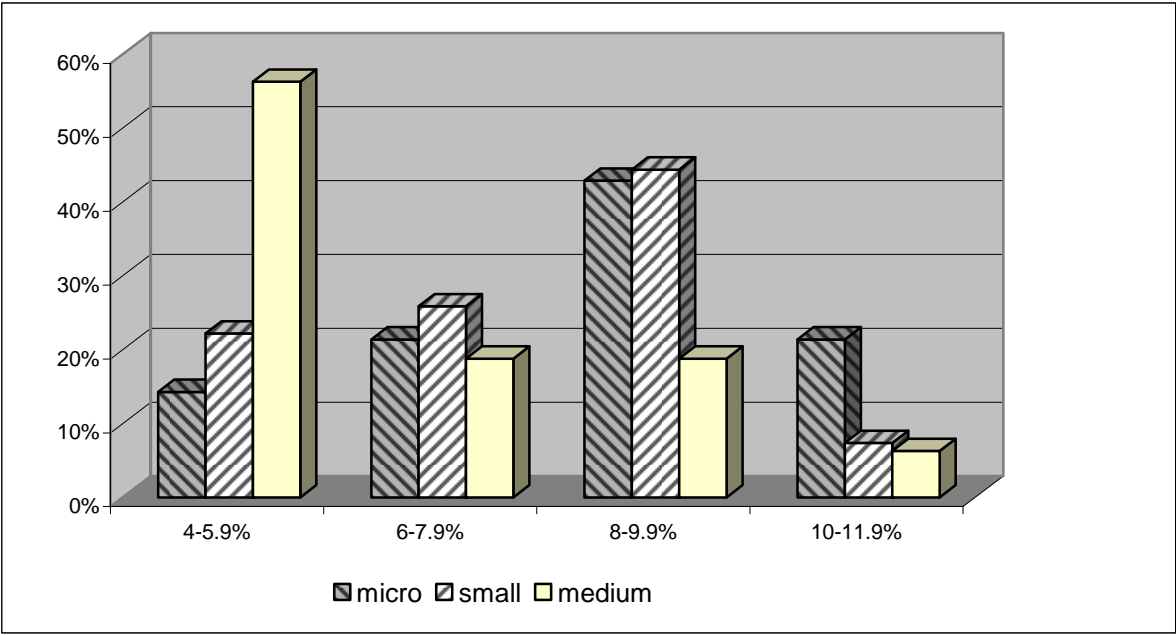
In the present sample micro firms form the largest cohort of those less than 10 years old (74 percent) compared to 62 percent of small and 42 percent of medium sized businesses respectively. Smaller firms are likely to have shorter banking relationships and would appear to incur higher costs as a result. Our analysis of the year of formation, pre- and post 1990 (1990 being the most popular year of business formation of respondents) reveals that the older firms incur lower interest rates but the difference is not statistically significant. This is tabulated in Table 9 below also along with variation in interest rates across loan size where considerable variation is shown to exist.

Table 9: Impact of firm characteristics and overdraft volume across the overdraft interest

Overdraft interest	Micro firms	Small firms	Medium firms	Founded post 1990	Founded pre 1990	Overdraft < €50k	Overdraft > €50k
	%	%	%	%	%	%	%
4-5.9 %	14.3	22.0	56.3	21.2	31.4	20.7	33.3
6-7.9 %	21.4	25.9	18.8	21.2	25.5	17.2	27.5
8-9.9 %	42.9	44.4	18.8	48.5	33.3	44.8	35.3
10-11.9 %	21.4	7.4	6.3	9.1	9.8	17.2	3.9
12-13.9 %	0.0	0.0	0.0	0.0	0.0	0.0	0.0

A negative relationship is depicted in Table 9 between the size of the overdraft and interest charges as approximately 17 percent of overdrafts of less than €50,000 incur rates of 10-11.9 percent in contrast to just 4 percent of overdrafts greater than €50,000 pay rates. The difference is shown to be statistically significant at the ten per cent level (test χ^2 value =6.022,dof=3,p=0.109).

Figure 1: Distribution of overdraft interest margins for firms by size class



Notes:

The χ^2 value for this relationship is 11.225 (6 degrees of freedom) and the p-value is 0.10

The final test for the presence of variation in interest rates is across the nature of the banking relationship. This is shown below in Table 10. Whilst those in the participative cluster are deemed to pay lower interest rates on their overdrafts, the difference with the non-participative cluster is statistically insignificant. However, it does suggest that there are benefits from being classed as participative in terms of information exchange with the bank and willingness to discuss problems.

Table 10: Percentage of firms according to interest rate across participative clusters

Overdraft interest	Participative %	Non-participative %	Total %
4-5.9 %	29.33	23.5	28.0
6-7.9 %	27.69	11.8	24.4
8-9.9 %	35.38	47.1	37.8
10-11.9 %	7.69	17.6	9.8
12-13.9 %	0.00	0.0	0.0
<i>Total</i>	<i>100.00</i>	<i>100.0</i>	<i>100.0</i>

ANALYSIS OF THE FINDINGS

The average duration of lender relationships in this study is comparable with the studies set in bank dominated economies where relationship-based financing is deemed to play a significant role. An overview of the results is tabulated below. In particular, the results of this study are similar to those found by Harhoff and Körting (1998) where their average relationship duration, is 12 years which compares to a median relationship length of 15 years in this study.³ Analogously, Elsas and Krahnens (1998) average (median) of 18.2 (15) years duration is relatively close to the average duration of 18.4 (15) years for firms in this study. Moreover, the average relationship length in this study differs from empirical work set in market based financial systems. These include the seminal work of Petersen and Rajan (1994) and more recently Cole (1998).

Table 11: Comparison of Findings and Prior Research

	Prior Research	This research on Irish SMEs
Duration -length	Elsas and Krahnens (1998) - Germany - 18.2 average; 15 yrs median	Duration average 18.4 yrs; median 15 yrs
	Harhoff and Körting (1998) - Germany - 12 yrs average	
	Petersen and Rajan (1994) - US - 11 yrs average	
	Cole (1998) - US - 7 yrs average	
Scope	Ongena and Smith (2000) - cross country, average number of products sourced by Irish firms = 3.2	Number of products sourced averages = 2.6
Concentration	Harhoff and Körting (1998) - Germany - borrowing from 1.81 banks on average	Borrowing from 1.46 banks on average
	Petersen and Rajan (1994) - US - borrowing from 2.8 banks on average	
	Angelini et al (1998) - Italy - less liquidity constraints in more concentrated banking relationships	
Participation	Binks and Ennew (1996) Lower interest rates found for participative firms	Interest rates not found to vary between participative and non-participative firms

The number of banks used by firms is also an indicator of relationship intensity. The average number of products/services sourced by respondents from banks is 2.6, lower than the 3.2 shown by Ongena and Smith (2000) for Irish firms. However, the latter studied larger Irish firms and the difference between the two findings suggests that the smaller Irish SMEs captured in this study foster closer and more exclusive banking relationships.

Our findings on multiple-lender relationships reveal that firms have on average 1.46 borrowing relationships, which suggests more exclusive ties than even in the German context, where exclusive ties are a feature of the banking system. Harhoff and Körting (1998) found that German SMEs maintain relatively more exclusive borrowing relationships, where German firms borrow on average from 1.81 banks. Interestingly, while the mode for this study is the same as that found by Petersen and Rajan (1994) the median is higher for Petersen and Rajan (1994), again suggesting that the firms in this study maintain relatively exclusive relationships compared to the US firms examined in the former study.

A comparison of our study on the extent to which SMEs facilitate lenders in reducing information asymmetries (extent of borrower ‘participation’) reveals that unlike in the UK study by Ennew and Binks (1996), the difference in the interest paid between participative and non-participative firms in our study is insignificant. However, a greater proportion of the participative firms are seen to pay the lower rates of interest whereas the majority of the non-participative pay rates of 8 percent or higher. There appears to be no significant relationship between the number of banks and whether security has to be provided. However, more firms with an exclusive bank relationship do not have to commit personal or business assets. The findings in this study suggest, albeit tentatively, that the more exclusive the relationship, the more likely a firm will have access to finance. This in line with the aforementioned Italian results from Angelini et al. (1998) who found evidence that liquidity constraints occur less frequently among firms borrowing from a limited number of banks.

CONCLUSION AND LIMITATIONS

We can conclude that from the two critical dimensions of the relationship banking definition of Boot (2000) - proprietary information and multiple interactions - that there is a high level of interaction between SMEs and account/relationship/branch managers respectively underpinning the importance of relationship banking in both regions. In terms of relationship characteristics, firms on average, deal with more than one bank and this is especially so for those in the South-East sample. Banks gather information on small firms primarily as part of their ongoing monitoring process (79 percent) and this information is deemed to play an important role in both establishing and maintaining the banking relationship. Despite the market being heavily concentrated (2 banks account for 80 percent of SME’s banking), a strong degree of satisfaction is manifested by small businesses surveyed with 80 percent citing they have not changed or are not considering changing banks. With up to 70 percent of firms demonstrating participative behaviour, one can conclude that relationship banking is indeed a feature of the two regions assessed. Compared to their international peers, Irish firms surveyed exhibited exclusive lender/borrower relationships, a pattern more reminiscent of German SMEs. We recall that the German banking system is distinctive in its emphasis placed on close banking ties. This is an interesting finding because it either suggests a lack of choice in Ireland (possibly not the case given the high satisfaction ratings elicited by respondents) or rather a genuine tendency towards close lender/ borrower ties.

About the cost of finance, it is unclear whether the smallest firms in our sample are charged actuarially fair rates on their overdraft borrowings, given their potentially higher risk profile. What is clear is the fact that they pay more for their overdraft borrowings.

One major drawback in any study of business/bank relationships is the issue of censoring (Ongena and Smith, 2001). This study surveys the SMEs about their existing bank relationship but is unable to provide information about when the relationship will end. Thus, the duration of the firm/bank relationship is “right-censored” since the maximum length of the relationship is limited by the survey year. Furthermore, the firms surveyed may be all at different stages in their life cycle which could potentially influence their relationship with their bank(s) and this is not captured in the current study. The second limitation is that the study focuses on borrower responses only and therefore does not capture the banks view on relationship banking. Specifically, it was not possible to assess whether the bank evaluates the profitability of their investment in information gathering.

This is a first illustration of how significant patterns can be seen across several dimensions of the lender/business relationship. These dimensions include the duration of lender/business

relationships and the cost of finance. Our unique data of Irish businesses relates to the year 2005. Ideally, we would have collected data for a larger sample of firms which would allow us to apply standard regression techniques to control for risk factors (age and length of relationship) while simultaneously controlling for firm size and/or industry. Furthermore this study provides no insight into the challenges in sourcing finance for Irish SMEs as identified in the Forfas Report of the Small Business Forum (1996) or to the competitiveness within the Irish banking market for small firms. We leave these for future research.

NOTES

¹ Evidence conflicting with the aforementioned studies which conclude that exclusive business-bank relationships translate into cheaper borrowing costs, Hanley, Binks and Ennew (2006) find that UK lenders with the largest market share in SME finance over the 8 years surveyed, charged significantly higher interest premia to their business borrowers. This study finds evidence that lenders can abuse their market power.

² From the open-ended question following on the Likert rating

³ We, like Harhoff and Körting (1998) use the median as a measure of the average value. The median is reasonably robust to outliers, unlike the mean (average).

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Appendix 1:

Survey Instrument Section A: Relationship with Banks

Q1. How often do you visit your bank branch?

Daily Weekly Biweekly Monthly Bimonthly Every Quarter

Q2. What is the distance between your local bank branch and your business? _____

(Approx. number of miles)

Q3. Does your bank offer a relationship management service? Yes No Don't know

Q4. Have you been assigned an account/relationship manager? Yes No

Q5. How often do you meet with your account/relationship manager?

Not applicable Monthly Bimonthly Every Quarter other (please specify)

Q6. How often do you supply information about the business to your bank?

Monthly Bimonthly Every Quarter Other (please specify)

Q7. Please specify how you would classify this communication.

You may ✓ more than one option.

As a condition of financing As part of an ongoing relationship Other (please specify)

Q8. Does your business avail of banking services via the:

Internet Telephone

If not please state why _____

Q9. If your business banks via the internet and/or telephone has this resulted, in your opinion, in fewer visits to your branch? Yes No

Q10. Upon opening the bank account for your business at what stage did your company seek the first loan from the bank?

Please ✓ only one option

Once the first account was opened Within 6 months of opening the account
 Within 12 months of opening the account At a later stage

Q11. What information did the bank require from your business at each of the following stages?

You may ✓ more than one option for each stage.

	When first opening the account	When the first loan was sought	When additional loans/services were sought	As part of the ongoing relationship
Detailed business plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Projected cash flows	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Product/service details	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sales projections	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Owner's investment in the firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Management team profile	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Break Even figures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Projected Profit and Loss	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
End of Year Profit and Loss	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Projected Balance Sheet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
End of Year Balance Sheet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sensitivity Analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
R&D investment details	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Detailed financial ratios	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Number of employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q12. For each of the following statements, please circle the appropriate number which represents the extent to which you agree/disagree with them.

The bank acquires information regarding my business and uses it:

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
To cater for the changing needs of the firm	1	2	3	4	5
As part of the bank's ongoing monitoring of the firm	1	2	3	4	5
To improve it's understanding of the nature of my business	1	2	3	4	5
To enhance the banks trust in the firm	1	2	3	4	5
To tailor product offerings to my business's needs	1	2	3	4	5
To gain more power over the business	1	2	3	4	5
To enhance relations with the firms management	1	2	3	4	5
To improve the bank's financial advice to my business	1	2	3	4	5
Primarily as a mechanism to sell more products and services	1	2	3	4	5

Any other reasons _____

Q13. In your opinion do you believe that information you communicate to your bank remains private between you and the bank? Yes No

Q14. Would you describe the current relationship between your business and the bank as:

A close working relationship At arms length Other (please specify)

Q15. With regards to your businesses relationship with the bank please indicate to what extent you agree/disagree with the following statements.

Please circle the appropriate number in each row

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
It is important to provide the bank with regular and timely information:					
Time spent meeting with bank personnel is beneficial:					
It is important to inform the bank if the business faces potential difficulties:					
Relationship banking has had a positive impact on the firm's development:					
You prefer to avoid any contact with the bank or bank manager:					
Relationship banking is used to prevent the firm from switching banks:					
It is important to discuss excess borrowings with the bank:					
Banks are vital in the life of small businesses:					
Excess time is spent meeting with and providing information to the bank:					
Banks recognise the importance of their small business clientele:					
Time spent meeting with & providing information to the bank helps reduce errors:					
It is important to seek the advice of the bank at a time of financial distress:					

Q16. In your opinion, does your bank actively seek to retain your custom? Yes No

Q17. For each of the following statements, please circle the appropriate number, which represents the extent to which you agree/disagree with them.

	Strongly agree	Disagree	Neutral	Agree	Strongly disagree
The nature of the relationship between my business & its' bank has changed					
Decision-making by the bank is now more centralised at headquarters					
There has been significant change in the SME banking market					
The firm's relationship with the bank has improved recently					
Change in my firm's banking relations stems from the business environment					
The bank's personnel change frequently and this affects bank/firm relations					
The bank's emphasis has shifted towards more profit making					
The firm's relationship with the bank has deteriorated recently					
Excess time is spent meeting with and providing information to the bank:					
Banks recognise the importance of their small business clientele:					
Time spent meeting with & providing information to the bank helps reduce errors:					
It is important to seek the advice of the bank at a time of financial distress:					

Q18. Which of the following statements best describes your business?

Please ✓ one box only

- You have changed banks in the last 3 years
- You are currently considering changing banks
- You have changed banks and are considering changing again
(please skip to Q20)
- You have not changed banks and are not currently considering it
(please skip to Q20)

Q19. If you have changed bank in the past three years or are thinking about it, what was/is the reason for this?

You may ✓ more than one option:

- Loan Application rejected
- Need for increased credit
- Bank mistakes
- High interest rates charged
- High bank charges
- Approached by another bank
- Poor overall relationship with the bank
- Lack of transparency over fees/charges
- Bank had too much control over the firm
- Lack of support for business development
- Other (please specify) _____

Q20. If you have not changed banks in the past three years nor are you thinking about changing please indicate to what extent you agree/disagree with the following statements.

Please circle the appropriate number in each row

	Strongly agree	Disagree	Neutral	Agree	Strongly disagree
There is little/no difference in service and products provided across banks					
Our business is satisfied with its' current bank					
Switching banks would require too much effort					
Our company feels tied to it's current bank					

The time and money invested in the relationship makes it difficult to move banks
 Due to the nature of my firm it cannot convey its' credit worthiness to other banks
 It is difficult to obtain suitable information to adequately compare banking services
 There is a lack of competition among the banks
 Relationship formed with current bank results in benefits that outweigh the costs

Q21. How does your business assess the pricing of the financial services it acquires?

Please ✓ only one option

Based on the cost of each service sought Based on cost of the total bundle of services sought

Q22. Does your business seek advice from the bank when it is making critical business decisions?

Yes No

If yes, please specify why your business seeks the banks advice for critical decision-making?

You may ✓ more than one option.

As a condition of financing As part of an ongoing relationship Other (please specify)

Section B: Bank Financing and Firm Characteristics

Q1. What year did your firm begin trading? _____

Q2. How many people does your company currently employ? Full time _____ Part Time _____

Q3. What has been your average rate of growth in company sales over the last 3 years?

Please ✓ one box only

Under 1% 1-5% 6-10% 11-20%
 21-49% 50-99% Over 100%

Q4. Which of the following ownership structures applies to your business?

Sole Trader Partnership Limited Liability company Other (please specify)

Q5. How many banks do you borrow from? _____

Q6. Is your principal lender also your main bank? Yes No Don't have a main bank

(Main Bank - Your business deals with this bank and it accounts for 80% or more of your financial transactions)

Q7. Approximately what percentage of your business' borrowings is sourced from your principal lender?

0-19% 20-39% 40-59% 60-79% more than 80%

Q8. Please rate the usage of each of the following sources of finance sourced from your principal lender over the last 3 years. In doing so we ask that you identify the year in which it was secured, the year in of final repayment and to circle the importance of each source.

	<i>Year Secured</i>	<i>Year of final repayment</i>	Not important	Of little Importance	Moderately Important	Important	Very Important
Bank Loan < 5 years	_____	_____	1	2	3	4	5
Bank Loan > 5 years	_____	_____	1	2	3	4	5
Working capital finance	_____	_____	1	2	3	4	5
Business Overdraft	_____	_____	1	2	3	4	5
Commercial mortgages	_____	_____	1	2	3	4	5
Hire Purchase	_____	_____	1	2	3	4	5
Invoice Discounting	_____	_____	1	2	3	4	5
Supplier Finance	_____	_____	1	2	3	4	5
Business Credit Cards	_____	_____	1	2	3	4	5
Other: (please specify)	_____	_____	1	2	3	4	5

Q9. Please select the interest rate your business is currently charged for each of the following sources of finance by ticking the appropriate box.

	<i>Interest Rate</i>				
Bank Loan < 5 years:	4% -5.9% <input type="checkbox"/>	6% -7.9% <input type="checkbox"/>	8-9.9% <input type="checkbox"/>	10% -11.9% <input type="checkbox"/>	12-13.9% <input type="checkbox"/>
Bank Loan > 5 years:	4% -5.9% <input type="checkbox"/>	6% -7.9% <input type="checkbox"/>	8-9.9% <input type="checkbox"/>	10% -11.9% <input type="checkbox"/>	12-13.9% <input type="checkbox"/>
Leasing:	4% -5.9% <input type="checkbox"/>	6% -7.9% <input type="checkbox"/>	8-9.9% <input type="checkbox"/>	10% -11.9% <input type="checkbox"/>	12-13.9% <input type="checkbox"/>
Hire purchase:	4% -5.9% <input type="checkbox"/>	6% -7.9% <input type="checkbox"/>	8-9.9% <input type="checkbox"/>	10% -11.9% <input type="checkbox"/>	12-13.9% <input type="checkbox"/>
Business Overdraft:	4% -5.9% <input type="checkbox"/>	6% -7.9% <input type="checkbox"/>	8-9.9% <input type="checkbox"/>	10% -11.9% <input type="checkbox"/>	12-13.9% <input type="checkbox"/>

Q10. Please select the credit limit that currently applies for each of the following sources of finance by ticking the appropriate box.

Bank Loan < 5 years:	€0 - €9,999 <input type="checkbox"/>	€10,000 - €24,999 <input type="checkbox"/>	€25,000 - €50,000 <input type="checkbox"/>	Greater than €50,000 <input type="checkbox"/>
Bank Loan > 5 years:	€0 - €19,999 <input type="checkbox"/>	€20,000 - €49,000 <input type="checkbox"/>	€50,000 - €100,000 <input type="checkbox"/>	Greater than €100,000 <input type="checkbox"/>
Hire purchase:	€0 - €9,999 <input type="checkbox"/>	€10,000 - €24,999 <input type="checkbox"/>	€25,000 - €50,000 <input type="checkbox"/>	Greater than €50,000 <input type="checkbox"/>
Leasing:	€0 - €9,999 <input type="checkbox"/>	€10,000 - €24,999 <input type="checkbox"/>	€25,000 - €50,000 <input type="checkbox"/>	Greater than €50,000 <input type="checkbox"/>
Business Overdraft:	€0 - €4,999 <input type="checkbox"/>	€5,000 - €9,000 <input type="checkbox"/>	€10,000 - €19,999 <input type="checkbox"/>	€20,000 - €50,000 <input type="checkbox"/>

Q11. Do you believe that your business will need more finance for expansion in the future?

Yes No

Q12. Do you believe that finance for future growth is available to your business? Yes No

If no please state why _____

Q13. What would be the worst conditions your firm would be prepared to undertake in order to secure additional bank lending?

Please ✓ only one option

- A higher interest rate and more collateral
- The same interest rate but more collateral
- A higher interest rate but the same collateral
- The same interest rate and the same collateral

Q14. Please select the types of collateral required by the bank(s) as security at the following stages?

You may ✓ more than one option for each stage.

	When first opening the account	When the first loan was sought	When additional loans/ services were sought	As part of the ongoing relationship
1. Personal assets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Business assets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Personal guarantees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. None	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>