

UNIVERSITI TEKNOLOGI MARA

**IDENTIFICATION OF CRITICAL
FACTORS UNDERPINNING BANKS'
LENDING RELATIONSHIP QUALITY
OF SMEs :
SMEs PERSPECTIVES**

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ABSTRACT

The Small & Medium-sized Enterprises (SMEs) limited access to banks' lending has been a global issue owing to asymmetric information problem that have negatively affected SMEs opportunity to borrow. The theory of relationship lending proposes that relationship lending is an effective lending tool to address asymmetric information issue if a bank would lend to the SMEs. The quality of bank-SMEs lending relationships should be strengthened to enhance SMEs access to banks' lending. Therefore, the key purpose of conducting this research was to identify critical factors underpinning banks' lending relationship quality of SMEs, to propose a conceptual framework of banks' lending relationship quality of SMEs and to determine banks' lending relationship quality composite index of SMEs that would reflect the overall banks' lending relationship quality of SMEs. A total of 150 survey questionnaire were distributed to the target respondents and 117 responses were successfully collected with a response rate of 62%. The data were captured into SPSS 22 and evaluated by using SMARTPLS 3.2.7 iterative algorithm, bootstrapping and blindfolding procedures to obtain the results. The key findings indicated that long-term relationship orientation, discretionary, commitment and closeness were critical factors underpinning the maintenance and enhancement of banks' lending relationship quality of SMEs, while trust, satisfaction with the relationship and amount of information sharing have shown trivial effect on banks' lending relationship quality of SMEs. The overall banks' lending relationship quality composite index which stood at 4.13 suggested that the SMEs were generally pleased with the quality of lending relationship rendered by their lending banks. The results from assessments in the measurement model and structural model have provided the statistical and empirical evidence that the proposed conceptual framework possessed the quality of explanatory and predictive capability, reliability and validity that would represent a contemporary composite factor model of banks' lending relationship quality of SMEs which was specific relative to the generic relationship quality model. In order to enhance SMEs access to banks' lending, lending banks must capitalise on the critical factors identified to strengthen the quality of lending relationship of SMEs. When lending relationship is strong, credit rationing would be reduced when asymmetric information issue is lessened. Hence, the prospect and opportunity of the SMEs access to banks' lending would be brighter.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

The Small and Medium-sized Enterprises (SMEs) play a crucial role in enhancing economic development in Malaysia. In spite of that, SMEs in Malaysia are confronted by the problem of limited access to banks' lending. This chapter presents a general picture of SMEs lending in Malaysia in particular and discussions on pertinent issues associated with SMEs limited access to banks' lending. SMEs limited access to banks' lending is due to the problem of asymmetric information. Hence, the key objective of this current study is to identify critical factors underpinning banks' lending relationship quality of SMEs to address the problem of asymmetric information to enhance SMEs limited access to banks' lending. The scope, limitation and significance of the study are also discussed in the chapter.

1.2 Background of the Study

The Small and Medium-sized Enterprises (SMEs) have a dominant position and major role to play in the world's economy. This is due to the fact that these small businesses enterprises have significant contributions toward the economic growth in the developing world in terms of creation of employment, sustainable flow of trade, investment and reduction of poverty. Collectively, the Small and Medium-sized enterprises (SMEs) are considered global strategic economic thrust as they constitute the largest portion of the total business enterprises worldwide (World Bank, 2015).

An Organization for Economic Co-operation and Development (OECD) has estimated that the small and medium-sized enterprises (SMEs) have constituted about 90% of the total businesses enterprises that delivered about 63% toward global employment (OECD, 2015). They play major role in any economy, but their limited access to banks' lending has remained one of the major issues for them to achieve long-term growth, prosperity and competitiveness. Therefore, their continuous access to banks' lending is of paramount importance for them to realise sustainable success.