An Investigation into Small and Medium Enterprises’ (SMEs) Access to Bank Lending in the Midlands of Ireland.

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Abstract

Small and medium enterprises (SMEs) are considered to be one of the most significant contributors to economic growth, actively involved in wealth creation through investments and participation in research and development, product and services innovation, employment creation, all of which accounts for the state of any economy. Creating an enabling environment for SMEs to develop and thrive may be considered among the most important policy strategies of governments. The recognition of the role of the Irish SMEs has informed the provision of national and European Union sponsored initiatives to ensure that this sector of member state economies continue to not only grow, but encourage the entry of new participants.

This research explores the challenges that SMEs in the Midlands of Ireland experience in accessing bank loan. The study examines challenges encountered by start-up enterprises, established businesses and the role and actions of bank in the region to ease SMEs access to bank lending. The perception of stakeholders is considered an important factor on the willingness of new businesses in particular to approach banks for debt financing. Mature and medium sized enterprises however face fewer difficulties in accessing bank lending. The availability of government grants may form one of the reasons why start-up enterprises do not consider the banks as the first source of external financing; however findings indicate that having secured state funding, most start-ups consider their chances of securing bank financing to be much more improved. Banks stressed the importance of good and viable business plans as the fundamental determinant of successful loan application for start-up businesses.

Data were collected from participants and they reflected findings from previous research and SMEs literatures highlighting the preferences for external sources of funding by
SMEs and factors that determine these preferences or lack thereof. The pecking order theory which suggests the preference for internally generated funds and the use of external sources after the exhaustion of internal or own funds was found and proven in this study.

This study will also show that most SMEs in the region use bank loan to finance capital investments, cash flow and most significantly for growth purposes. Findings suggests that post recession, SMEs and business groups who have expressed the increasing difficulties faced by SMEs in securing bank credits have blamed banks for not investing in new businesses as they are considered riskier ventures as opposed to profitable, reputable and mature entities. This view is shared by participating SMEs in this study.

The use of owned funds through credit union loans was found to be one of the sources of external finance used by new businesses. This may be due to the ease of access to credit union loans and the inability of new enterprises to meet the requirements of mainstream banks. The use of personal guarantees and collateral was found to be one of the factors that hinder access to bank lending in the region.

Having localised knowledge of businesses in the region may be perceived as the basis of creditor-debtor relationship and that this may have a positive impact on the outcome of loan applications, the banks however are of the opinion that this may only reduce turnaround time and will have little or no impact on the outcome of loan applications. Businesses have a mixed view on this issue as some opined that having a robust relationship with their banks provides the basis for not only accessing bank lending, but significantly, businesses are aware of products, policies and developments that may increase the chances of successful applications.
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Chapter 1

Introduction

1.0. Background of study

The recent global financial crisis and the need for greater control of banking activities and practices has no doubt had a huge impact on the ability or willingness of banks to extend credit to small and medium scale businesses. The effects are more profound if the business in question has limited growth potential or is unwilling to expand due to its owner’s inability to cope with the demands of a growing entity or other internal strategies.

Ireland recently emerged from recession and the growth forecast for the economy is encouraging. It is assumed that small and medium enterprises will be in the forefront of forces driving this growth, as according to Carroll et al (2016), SME investment is sensitive to developments in regional economic conditions, as measured by the unemployment rate. Strategies aimed at reducing the unemployment level and getting more people back to work is one of the major moves to enhance economic growth Small and medium enterprises play very important roles in actualising this goal. According to the European Commission 2009b report, it was indicated that SMEs accounts for a considerable proportion of economic activity in most countries. They represent the vast majority of enterprises in the European Union and employ more than half the labour force. In Ireland, SMEs account for 99% of firms and employ 68% of workers.

It is also vital to ensure that structures are in place to facilitate the emergence of new enterprises and to support the growth ambitions of existing small and medium enterprises to achieve the overall objective of economic growth. The role of financial institutions is therefore of huge significance and the aim of this thesis is to investigate issues surrounding
the availability of financial support by banks to small and medium enterprises in the Midlands of Ireland and the perceptions and experiences of relevant stakeholders.

1.10. Rationale

Considering the significant role of SMEs in the economies of nations and Ireland specifically, the rationale for this study is primarily to ascertain the ease with which they can access external finance from the banks so that they can remain at the forefront of forces driving economic growth as indicated by various reports from national to international levels.

Funding is considered to be one of the main requirements in establishing a business. It is the resource that is most required in the implementation of business ideas and strategies. Therefore the availability of funds to SMEs to establish, develop, sustain and expand their businesses is not only important for the business owner but bears significant ramification for the economy in terms of creating employment opportunities, as well as increased and improved products and services which translates to economic growth.

1.20. Significance of topic

This study explores and reports on the challenges experienced by SMEs in the Midlands of Ireland. It explores the sources of external finance for small and medium enterprises, their preference for different sources of funding such as internally generated funds, external financing through banks, government funding or through other means such as liquidation of own assets, borrowing from family and friends among others. It examines the level and willingness of small and medium scale enterprises to approach financial institutions for credit facilities and the determining factors, such as relationship with the bank, business growth potential or expansion, and largely the state of the economy.
The study investigates the position of start-ups and the challenges they encounter in accessing bank lending. Anecdotal evidence suggests that one of the reasons most aspiring entrepreneurs give for not actualising their business ideas is the non-availability of finance. The question of access to bank credit for start-up businesses is one that will be explored in this paper.

For already established SMEs, it may be assumed that accessing bank credit is a strategic decision that has to be made. Drawing from the assumption that these businesses will contribute immensely in driving the growth of the economy, it is significant for all stakeholders – SMEs, banks, regulators and government to ensure that accessibility and processes are not only equitable with accountability, but also ensure that these processes support the growth and strengthening of small and medium enterprises in the country.

This paper explores the role of all stakeholders and assesses their perception on their influence in advancing the growth potentials of SMEs and attempts to add to existing literature by highlighting new evidence on the financing decisions of SMEs in the midlands of Ireland.

1.30. Aims and objectives

This paper aims to explore the challenges of small and medium enterprises in the Midlands of Ireland and their accessibility to bank credits for the purposes of establishment, growth and sustainability.

To investigate this topic, the following objectives were set out in order to present an in-depth analysis of SMEs access to bank lending in the region:

- Ascertain the opinion of newly established small and medium enterprises on the level of financing provided by banks.
• Explore the opinion of existing small and medium enterprises on the level of financial support from banks.

• The position of banks on their level of financing of newly established small and medium enterprises

• The position of banks on their level of financial support offered to existing small and medium

• impact creditor-debtor relationship and growth of SMEs in the Midlands

• The impact of banking regulations on the ability of banks to meet the needs of existing SMEs

1.40. Sample Selection and Rationale

Various stakeholders were interviewed in order to gather data relevant to the aims of the research, they include:

Four (4) representatives of SMEs: the rationale for this is to ensure that the writer is able to gather data from a diverse and representative range of new and existing small and medium enterprises

One (1) representative each from two banks in the Midlands: due to cost and time constraints, the writer intends to focus on two of the big banks operating in the Midlands, on the basis
that these banks have relatively high percentage share of banking services provided in the country.

A representative of one of the agencies responsible for SME support and funding in the region: as a major resource and support agency for new and existing enterprises, this participant provide relevant information with regards to the challenges faced by new businesses in the region.

Representatives of the Central Bank of Ireland: with banking regulations as a fundamental factor on how banks operate, it is hoped that input from a representative on the impact of these regulations on the research topic will provide a basis for comparison with the levels of financial supports the banks render to small and medium enterprises in the Midlands of Ireland.

1.50. Definition of terms

- For the purpose of this study, bank lending refers to all direct lending which include the direct transfer of funds from a bank to an SME.
- The study excludes analysis of indirect sources of finance which support SMEs through trade credit, access to employees’ resources and tax incentives.
- An SME is generally defined (using the standard EU definition) as any entity engaged in economic activity, regardless of legal forms such as corporation, partnership and sole-trader which employs less than 250 persons with annual turnover not exceeding €50m or whose annual balance sheet does not exceed €43m.

At the end of the study, findings will highlight the different perceptions of identified stakeholders, the challenges that SMEs experience in securing bank credit, factors that
influence decision making in the consideration of seeking bank lending by both start-up enterprises and established SMEs, preference or otherwise for external funding by SMEs, the role of creditor-debtor relationship in loan application and the position of banks on their levels of SME lending.
Chapter 2
Literature Review

2.0 Introduction

The purpose of this chapter is to review relevant literature that relates to access to bank credit by Small and Medium Sized Enterprises (SME) in the Midland of Ireland. In doing this, it begins with an overview of the fallout of the 2008 banking and financial crisis in Europe and provides data that compare and contextualise Ireland's unique economic situation within the European Union (EU). Drawing on existing data from sources such as; Central Statistics Office, official bank reports and IBEC publications among others, the review progresses by exploring the impact of the banking crisis on Irish SMEs, the level of reliance on bank credit by SMEs in Ireland and factors that influence credit approval decisions by banks. The chapter also highlights recent developments in the post-recession economic recovery and growth.

The 2007 global financial crisis had enormous impact on the economies of Western Europe and North America. This had significant implications for employment, construction and manufacturing industries, financial markets and socio-political atmosphere in Greece, Portugal and Italy. In Ireland, there was a near-total collapse of the banking, construction and manufacturing sectors of the economy (Lucey 2014). This resulted in rising unemployment, government cut-backs, withdrawal of social services and declining revenue generation, consequently leading to the financial bailout of the Irish State by the European Union (EU).

To address these local and global challenges, there was need for tighter fiscal and financial control of banks in Ireland and abroad. This review looks specifically at the on SMEs’ ability to access bank credit post-recession, as a source of external debt financing in the Midland of Ireland.
The impact of the recession on financial institutions and the need for greater control of banking activities and practices may have negative implications on SMEs’ access to bank lending, especially for those with slow growth or those unwilling to expand due to owner(s) inability to contend with the demands of growing a business, other internal strategies and related market forces especially consumer demand.

With the economic recovery of the Irish economy and the reported positive growth forecast, one of the main drivers of this growth is small and medium enterprises’ participation. Strategies aimed at reducing the unemployment level and getting people back to work is one of the major steps taken to enhance economic growth. Small and medium enterprises play very important role in this regard. Lawless and McCann, (2011), citing (European Commission 2009b) point out that these SMEs accounts for a considerable proportion of economic activity in most countries. They represent the vast majority of enterprises in the European Union and employ more than half the labour force. In Ireland, SMEs account for 99% of firms and employ 68% of workers (European Commission, 2009b).

Table 1

<table>
<thead>
<tr>
<th>Type</th>
<th>Employee</th>
<th>Turnover</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Less/=10</td>
<td>Less/= €2mn.</td>
<td>Less/= €2mn.</td>
</tr>
<tr>
<td>Small</td>
<td>Less/= 50</td>
<td>Less/= €10mn.</td>
<td>Less/= €10mn.</td>
</tr>
<tr>
<td>Medium</td>
<td>Less/= 250</td>
<td>Less/= €50mn.</td>
<td>Less/= 43mn.</td>
</tr>
</tbody>
</table>

Across the EU in 2014, some 22.3 million SMEs, 17 of which are in the non-financial business sector employed 89.9 million people and generated €3715 trillion in value added, implying that 99 out of every 100 businesses in the EU are SMEs, accounting for 2 in every 3 employees and 58 cents in every euro of value added. It is estimated that micro SMEs with
less than 10 employees account for 92.7% of all SMEs’ employment in the EU (EBA Report on SMEs and Supporting factors, 2016).

Fig. 1. shows the percentage of employment represented by SMEs in non-financial business sector of the EU in 2014. (Source: EU Commission Directorate General for Research and Innovation SMEs Participation Seventh Framework Programme (FP7))

2.10. Small and Medium Enterprises: Ireland

SMEs are defined in terms of employment, turnover and asset thresholds, Lawless et al. (2012). The Irish small and medium enterprises (ISME), defines an SME as a micro, small or medium sized enterprise. Under the standard EU definition of SMEs, businesses are classified as SMEs if they employ fewer than 250 persons and have an annual turnover not exceeding
50 million euro, and an annual balance sheet total not exceeding €43m. Micro Enterprises employ less than 10 people and have an annual turnover of less than €2m and an annual balance sheet total of less than €2m. Small enterprises employ between 10 and 50 people and have an annual turnover of less than €10m and an annual balance sheet total of less than €10m. Medium Enterprises employ between 50 and 250 people, have an annual turnover of less than €50m and an annual balance sheet total of less than €43m. (See table 1)

According to a Central Statistics Office survey, (CSO, 2012 p15), SMEs have received a lot of attention recently due to their implications for employment and potential to support the recovery of the Irish economy. The CSO report states that the majority of SMEs in the country were micro enterprises accounting for 90.7%. A further 7.7% were other small enterprises while 1.3% was classified as medium sized enterprises. Only 0.3% of enterprises were large enterprises, employing more than 250 persons. According to the CSO statistics, the number of SMEs in the country is not less than 185,500, out of which 99.7% of them are micro SMEs. This figure dropped as observed from the statistics presented below based on the EU SME performance review of 2015. It could be safely assumed that the impact of the recession had contributed significantly to the decline in the number of micro SMEs in Ireland. Access to bank finance may be one of the major contributors to this trend. In its report to the Oireachtas, ISME (2014, pp12-13) stated that the central bank of Ireland (CBI) has ensured that banks improve their monitoring systems, restructure some SME loans, and set targets for lending to SMEs. Reporting to the Oireachtas, the joint committee on jobs, enterprise and innovation, indicated that there were differences in opinion on the issue of access to finance between the banks on the one hand and the small business representative organisations on the other (Joint committee on jobs, enterprise and innovation, 2014, p 7). The banks on the other hand claim that they are lending to SMEs and have dedicated SME capabilities and skilled staff in place. The ISME report however went on to point out that
SMEs in Ireland face even more acute difficulties, in terms of access to, and pricing of, credit compared to other European countries. Emphasising that banks in the country are mostly interested in lending to ‘safe’ SMEs, whereas the real difficulties in the present environment are faced by SMEs that are not ‘safe’, (ISME, 2014, p 3).

Fig. 2. Irish SMEs composition indicating the size, structure and importance of this sector.


Based on CSO report of 2014, Bank finance applications from SMEs which had created more employment and growth recorded more success. Applications from high-potential start-ups and other high growth enterprises achieved a success rate of over 70%, compared to lower employment growth SMEs who recorded a success rate of 47.3%. This may imply that some
SMEs have experienced significant levels of credit constraints due to their inability or unwillingness to access bank lending. The organisation for economic cooperation and development (OECD) reported that credit constraints occur when SMEs cannot obtain financing from banks, capital market or other suppliers of finance even when they have the capability to use those funds productively, (OECD, 2006, pp 30-37). Previous research by Lawless et al., (2013) has shown that the limited availability of alternative sources of financing makes bank financing particularly important in Ireland, therefore reduced access to debt financing from banks can be considered significantly detrimental for the growth and development of the Irish SME sector.

2.20. Small and Medium Enterprises and Bank Lending

Citing the European Central Bank, Bouchet and Isaak (world financial review, 2016) reported that SMEs are very much more dependent on bank finance compared to larger enterprises and are therefore more likely to be affected by banks’ increased risk aversion than larger firms. Not only SMEs suffered from reduced access to bank lending since the outbreak of the financial crisis in 2008, but also from tighter credit conditions. According to this report, between the latter part of 2008 and mid-2015, bank loans dropped by 13%, a position that was last seen in mid-2007. Bank financing, such as overdrafts, loans and leases or hire-purchase are the most utilised and relevant sources of finance for European SMEs as noted by the European Banking Authority in its 2015 report. The report indicated that in the 6-month period to September 2015, micro SMEs utilised bank overdrafts by an estimated 32.5%, small SMEs by 39.2% and medium sized SMEs was around the 44% mark, while bank loans were used by 13.4% of micro, 21.0% of small and 27.7% of medium enterprises (EBA, 2015).
Fig.3. Highlights of the use of various sources of finance in the EU28 by enterprise size for the period April – September 2015. (Source: EBA Report on SMEs and Supporting Factors (2015))

According to CSO (2014) report, almost half of SMEs expect to seek bank finance in the period 2015-2017. The report noted that 47.7% of SMEs surveyed responded that they expect to seek bank finance in the period 2015-2017, with a further 10.7% indicating that they expect to seek finance internally from owners and directors funds. The main purpose for future financing as reported by SMEs surveyed showed that 36.5% will be looking at debt financing for working capital and 17.9% targeting investment and growth financing. Indications based on this survey shows that bank lending is viewed as a major source of SME financing and will remain so as indicated in the projections of respondents of the survey.

With regards to loan application by SMEs, evidence points to the fact that it can be difficult to convince banks of the viability of their enterprise and this is more prevalent among younger firms who do not have the reputation and documentary evidence or track record to show their potential for growth and viability in order to present a low risk profile to banks. As a disincentive, the attendant cost to the banks for monitoring and evaluating SMEs may be
one of the factors that banks consider in financing such new businesses, Lawless (2011, p5). Banks may therefore prefer to engage in transactional lending to established, mature and larger firms. According to the organisation for economic co-operation and development (OECD) report (2006, pp.22-26), banks may, in some circumstances, in considering loan application by SMEs, prefer to ration credit rather than use interest rate changes to compensate for risk if there are concerns that this might result in adverse selection and hence a riskier loan portfolio (OECD, 2006).

Lawless (2011), in a research on the funding of SMEs in Ireland has been relatively limited due primarily to lack of sufficient data. She noted that Ad hoc survey methods have been used to gain some information on the existence of financing constraints. In a survey of 275 small businesses, by Mac an Bhaird and Lucey (2006), it was discovered that owner funds and external debts collateralised by personal assets of the owner were the main sources of SMEs finance in Ireland. They noted that this was most prevalent in younger firms, while retained earnings serves as a major source of finance for more established businesses.

Due to the general perception that the banking crisis had impacted negatively on SMEs access to bank credit, Mazars (2009), commissioned by the Irish government, reported that 52% of the firms surveyed reported that they were refused bank credit in the last 12 months. The main reason cited by the banks were changes in banks’ lending policy and unsuitability of their business sector for credit. The report found that a change in banks’ internal policy was the response mostly given for rejection of applications from businesses engaged in the construction and manufacturing sectors.

Results from the 2014 Access to Finance Survey carried out by the CSO showed that bank finance was the most popular type of finance sought by SMEs in Ireland. Over a fifth of all SMEs applied for bank finance in 2014. While 20% of micro sized enterprises applied for
bank finance, the rate rose to 35% for small enterprises and increased again to 39.8% for medium enterprises. It went on to report that figures in excess of 70% of SMEs loan applications were successful. However, it was observed that applications from larger SMEs were more successful than smaller SMEs. Almost 92% of medium enterprises were successful compared to just fewer than 70% of micro enterprises. This implies that comparatively fewer SMEs were able to access bank lending considering the fact that an estimated 98% of SMEs in the country are categorised as micro and small enterprises. This report implies that 92% of bank loan applications for medium sized SMEs (which accounts for 1.3% of SMEs in the country) were successful while micro and small enterprises, who accounts for a greater proportion of SMEs in the country, recorded a success rate below 70%. There are various factors that may account for this situation that SMEs face in accessing bank lending. They include owner characteristics of micro and small businesses, availability of own funds or savings, internally generated revenue, willingness of SMEs to make loan applications, discouraged borrowers, lack of information, banks’ internal lending policies, use of collateral and personal guarantee, creditor-debtor relationship and the general macro-economic outlook.

2.21. Banking Relationship and SMEs Lending

Carroll et al., (2015), on the effect of bank-borrower relationship on collateral usage stated that asymmetric information regarding debtor quality decreases with the length and depth of creditor-debtor relationship in assessing the use of collateral. They indicated that the quality of this relationship according to research has reported mixed findings. Ono and Uesugi (2009) stated that longer creditor-debtor relationship results in more collateral usage while Berger et al., (2011), on the other hand, had different findings that pointed to the contrary.
The relationship that exists between banks and SMEs may be considered a major factor in the outcome for loan applications. The criteria for accessing bank credit, such as SMEs’ cash flow, track record, interest rates, loan repayment schedule, personal guarantee and collateral and how they determine success rate in loan applications may to a large extent be dependent on the decision making structure of the banks. The use of transactional or relationship lending technologies may also be a contributing factor in the success rate of loan applications. Transactional lending technologies are based on “hard” quantitative data that may be observed and verified at the time of the credit origination through the use of documentary records such as bank statements, financial reports, and credit history among others.

The need for efficient allocation of investment finance to SMEs according to Cole and Dietrich, (2013) is one of persistent policy concern and theme in the SME literature. Lucey et al, (2016), stressed that efficient credit allocation must address the provision of finance to ‘good borrowers’ and ensure that banks are not tied to bad debts by offering credit to unsuitable borrowers. This, it may be assumed, is largely due to the crisis that most financial institutions experienced as a result of bad debts which resulted in the toxicity in the banking sector in recent years. This may have resulted in a situation where the success rate of loan approval to good borrowers, despite meeting all or most criteria for loan approval, was negatively impacted. This perception was echoed in a presentation by the Irish business and employers’ confederation (IBEC) to the Oireachtas Committee on Jobs, Enterprise and Innovation in 2014. It reported that lending to SMEs by Irish banks dropped partly due to t to banks balance sheets related issues and fall in credit demand by SMEs. It indicated that SMEs in Ireland mostly require finance for investment and or working capital. IBEC also emphasised that the stage of SMEs development is a vital consideration as a determinant of finance needs and stressed the need for banks to make provision for the heterogeneous financing needs of SMEs based on their size, market and product portfolio. The presentation
identified prompt response to loan applications as one of the major challenges that SMEs face in accessing bank loans.

The decision and willingness of SMEs to approach financial institutions for credit facilities may be dependent on certain factors, such as relationship with the bank, business growth potential or expansion, interest rates and largely, the state of the economy. It may therefore be assumed that with the recovery of the Irish economy, SMEs in the Midlands may require financing for both working capital and for expansion purposes.

In a study of the capital structure of Irish SMEs, Mac an Bhaird (2009), surveyed 299 Irish SMEs from the Business World Next 1,500 List of Firms and found that age, size, level of intangible activities, ownership structure and provision of collateral are determinants of the structure of Irish SMEs. This has significant implication in accessing bank loans and based on this study, most Irish firms overcome the lack of collaterisable assets in two ways; the provision of personal assets as collateral for business debts and the use of additional external equity to finance certain aspects of their business such as research and development. This highlights the issue of the use of personal guarantee in Irish SMEs lending. According to Carroll et al (2015), based on telephone interview of 1,500 SMEs carried out by the Department of Finance, results indicate that 11% of SMEs with new or improved products or services are likely to have personal guarantees. They also found that making profit or breaking even in the previous six months decreases the probability of personal guarantee use by 9% and 12% respectively.
Fig. 4. Data on Quarter 4 2015 Lending to non-financial enterprises sector (NFEs) in Ireland.

(Source: Central Bank of Ireland: Financial Statistics Division 2015)

The above graph shows that majority of loans (68%) to NFEs according to the Central bank of Ireland, goes to SMEs. Findings from CBI analysis indicate that these SMEs are indigenous firms and have higher reliance on funding from the Irish resident banking system than larger and multinational enterprises.

Fig. 5. SMEs’ use of, bank overdrafts by Country (EBA, 2015)
The figure above indicates that Irish SMEs with a figure of an estimated 50%, well above the European Union average of 37%, are among the most reliant on bank overdrafts relative to other EU countries. This highlights the significance of bank lending to the sustainability of the Irish SMEs and the need for strategies to encourage ease of access to good borrowers in the sector.

**Fig. 6. SMEs use of Bank Loans by Country (EBA, 2015)**

Figure 6, which shows SMEs use of bank loan in the EU, places Ireland at an estimated 17% compared to the EU average of 19%.

The indication therefore is that SMEs are either much more comfortable with overdraft facilities where they may not be required to use collateral or personal guarantee and have the flexibility of using as required or the banks view the use of overdrafts as a less risky offer to SMEs. It may also be assumed that since most SMEs based on reports and surveys indicate bank lending is mostly for the purpose of financing working capital, the use of bank overdraft will appear to be the most relevant option.
2.22. Factors that Influence Credit Demand

According to the Department of Finance SME Credit Demand Survey (April – Sept 2015), findings suggest that even though most of the businesses were pursuing smaller growth opportunities, they are still largely focused on business consolidation and are reluctant to expose themselves to external sources of finance such as bank loans. The survey found that many of the SMEs surveyed still look inward to finance their growth ambitions. Findings indicate that the turnaround time from application to decision from banks has improved. This may result in SMEs’ willingness to access bank financing, the question here is the level of awareness of these businesses about this improvement. With the report finding that financial institutions are more likely to advance credit to businesses for the purpose of growth and expansion, there may be a need for SMEs to recognise that within a recovering and growing economy, there exists expansion potential which may ultimately translate to innovative ventures, diversification, market penetration, market expansion and product development. This business growth may, in time, lead to profitability, increased employment, revenue and economic growth which, based on research, may further improve access to bank finance. The Department of Finance Report notes an improvement in bank lending to SMEs, however, a number of respondent in the survey were of the opinion that banks are in fact only lending to a small number of SMEs.

Ownership structure and characteristics is a significant element in the SME’s willingness to seek bank loan. Risk taking, need for control, contentment with minimal profit margin while maintaining sustainability, fear of rejection and the perceived impact on credit ratings and implication of default among other are some of the challenges that a business owner may be faced with in a decision to apply for bank credit. The concept of the discouraged borrower may play a vital role on the unwillingness of owners to apply for bank loan. Based on Kon and Storey (2003, p 47) in Mac an Bhaird et al., (2016, p10), the discouraged borrower can be
defined as a good firm, requiring finance that chooses not to apply to the bank because it feels its application will be rejected. The perception of banks’ unwillingness to lend, previous rejection of loan application is a characteristic of discouraged borrowers. Mac an Bhaird et al (2016, p2) citing Levenson and Willard, (2000); Cavalluzzo and Wolken, (2005), pointed out that a significant impediment to investment may be the decision of a business owner not to apply for intermediated debt due to fear of rejection. He stated that like Levenson and Willard (2000), Freel et al. (2012) discovered that twice as many firms were discouraged from making a loan application as were rejected.

Small and medium enterprises exist not only on the basis of profit maximisation, but often times on assumption that growth is a desirable outcome (Berger and Udell, 1988; Gregory et al., 2005). This assumption therefore follows that some of these enterprises may not be growth oriented. That being the case, there may be self-imposed barriers to growth, or other internal and external factors that may prevent growth. This raises the question of the extent to which SME’s ability to secure eternal funding determine its willingness to grow and expand.

Bitler et al (2001) explains that an understanding of the factors that affect small business financing requires the incorporation of vigorous analytical structure that considers the financial attributes of borrowers and the market environment in which they operate. Vos and Roulston, (2008) in a survey carried out by the Federation of Small Businesses, responses from 18,635 (rate of 12.02%) indicated that most SMEs rely on internal sources of funding and external debts from financial institutions to finance operations and growth. This position based on findings seems to point to the fact that SMEs with above average growth potentials were more likely to gain access to external finance (Story, 1994). Mester, (1997) found that the entrepreneur’s characteristics as opposed to business characteristics are yardsticks for assessing commercial loan performance. Vos and Roulston (2008) also found evidence to support the notion that owner’s mental attributes is a major determinant of financial activity,
thus it all boils down to the entrepreneurs willingness to take risk in the areas of growth and seeking external finance to achieve growth.

In a survey by the Irish department of finance, a total of 1,500 telephone interviews were conducted with a random sample of Irish micro, small and medium enterprises and interviews were conducted between the 1\textsuperscript{st} and 15\textsuperscript{th} October 2015. It found that many of the SMEs surveyed still look internally to finance their growth ambitions. It also found that the turnaround time from application to decision from banks has improved. With findings indicating that some participants in the survey perceive the banks as not lending to SMEs, this suggests that banks may need to engage more in order to encourage credit demand from SMEs. This is particularly important considering that credit demand according to the survey remains low with just 30\% of all SMEs applying for bank finance in the six months preceding the report. This may be challenged by the notion that one of the main barriers to credit demand is SMEs belief that they do not need external credit. This was most prevalent in medium enterprises and the report attributed this to the unwillingness of these businesses to take the risk. It may be argued however that this could be linked to the enterprise stage of growth. According to the financial growth cycle paradigm, financial needs and options available and accessed by SMEs changes depending on the various phases of the business lifecycle, Berger and Udell (2008). This implies that SMEs require different financing strategies to meet the prevailing demand at particular stages in the development of the enterprise. Medium enterprises may have the capacity to use internally generate funds for the purpose of working capital. The financial requirement to finance growth and expansion may form the basis of their demand for bank loan.

The financing requirements of a start-up SME for instance may be heavily dependent on internal or owner funding sources, Huyghebaert and Van de Gucht (2007) and this according to Berger and Udell (1998) is due to the unique characteristics of these enterprises such as
informational opacity, and often times, a lack of trading history. As SMEs progress through these stages, Wu et al (2008) in a their survey of 60 SMEs across three cities in China found supportive evidence for the concept of the life cycle as a determinant of financing needs and strategies for SMEs. This is in tandem with studies carried out by La Rocca et al (2011) where they found that financial behaviour of SMEs can be attributed to the life cycle pattern. This findings are however inconsistent with the position of Berger and Udell (1998) who argue that the life cycle analogy is not a feasible one across all industries.

The pecking order theory (POT) posits that the capital structure decisions of a company are a function of its age (Myers, 1984). This theory is based on the belief that internal funding is used while external sources of finance are only accessed when this option is exhausted. This theory of financing suggests that due to financial market imperfections, external financing is more expensive than internal financing (Leitner and Stehrer, 2015). It thus follows according to Cassar and Holmes, (2003) that the order of preference for financing SMEs should progress from internal equity, issuing debt and ultimately issuing external equity. Numerous writers find that the POT is most relevant for SMEs due to the relatively greater information asymmetries and the high costs of securing external equity (Ibbotson et al., 2001). Crucially, a common trend in SMEs that may account for this is the desire of business owners to retain control and maintain managerial independence, (Chittenden et al., 1996 and Jordan et al., 1998) in La Rocca et al., (2011, pp 110-114) . According to Mac an Bhaird (2009), citing Cosh and Hughes, (1994) these factors suggests that SME owners source their capital from a pecking order of, first, their "own" money (personal savings and retained earnings); second, short-term borrowings; third, longer term debt; and, least preferred of all, from the introduction of new equity investors, which represents the maximum intrusion. They stated that the positive relationship between the use of retained profits and the age and size of the firm indicates that surviving firms are increasingly reliant on internal equity as accumulated
profits are reinvested. This suggests a tendency to use capital which minimises intrusion into the business, and is consistent with the POT.

Abdulsaleh and Worthington (2013), in their review of literature on SMEs financing, found that there appears to be a general agreement on the effects of SMEs characteristics on the financing strategies used. Leitner and Stehrer, (2015), in their analysis of determinants of SMEs funding obstacles to bank loans and trade credits, used telephone interviews of randomly drawn sample of top level business executives from Dun and Bradsheet database of firms across the EU to gather information on financing conditions for SMEs and found that positive size effect was consistent in EU countries, indicating that larger SMEs were more likely to apply for bank loans. Finding of the study also shows that SMEs ownership may impact on willingness to apply for bank loan to a limited degree in the EU. The status of an SME as an innovator was found to be unrelated to loan application decisions in the EU. Young and small SMEs are mostly dependent on external finance for growth and a large proportion of this finance is from bank credits, according to Gordon and Metrick, (2009). They found that traditional relationships with a single bank form the most prevalent source of financing for European SMEs. This is in line with Petersen and Rajan, (1994), Sapienza, (2002) where they highlighted the fact that most SMEs credits are mainly from a single intermediary where the borrower has an established lending relationship with the bank. Previous experience with banks and successful application according to Leitner and Stehrer, (2015), makes SMEs more likely to apply for further bank loan as longer debtor-creditor relationship helps in building trust with creditors and this may encourage SMEs to make further applications. This may indicate a perception that young and micro enterprises without relevant reputation and credit history may experience greater credit constraints compared to bigger and more established SMEs. There is however no evidence to show that smaller businesses in the EU are disadvantaged by size with regards to loan applications (Leitner and
Stehrer, 2015). This may be due to other macroeconomic factors and they pointed out that the ease with which firms can access external funds strongly depends on the particular macroeconomic context and the state and structure of the banking sector. It is however the general discourse in SMEs literature that, with few exceptions only, empirical evidence seem to supports the fact that smaller businesses are faced with greater financial constraints. Beck et al. (2006) emphasised this in stating that smaller firms actually report significantly higher obstacles to financing than larger firms. Riding et al (2012), in a large scale survey of data of actual loan application by entrepreneurs found that preferences do not adhere to a homogeneous prescription. Results showed that according to growth objectives, nature of ownership, age of business, size of business and the sector are significant considerations in successful applications. Carroll et al (2015) reiterate this notion in their study as earlier cited where results showed that the impact of informational asymmetries where SMEs have more knowledge and information of the business and industry than the banks highlighted the fact that a ten-year increase in a firm’s age or 10 additional employees makes personal guarantee 1% less likely.

In the Survey on Access to Finance of Enterprises Analytical report, (2015), in 30% of 28 EU countries, of the SMEs that applied for bank credits, 73% were successful – based on approval of 75% of loan amount applied for, (SAFE, 2015). The report found that most SMEs report improvement of firm specific outlook and the availability of most types of financing. This survey indicates that SMEs have adapted internal strategies with regards to the sourcing of financing. The pecking order theory may account for this trend as application for bank credit may only be necessitated after exhausting internal funding sources. The use of collateral or personal guarantee may also be one that may necessitate the use of internally generated sources of financing and with age, size and maturity; most SMEs would have established the reputation and basic requirements needed to successfully apply for bank
loans. It may be assumed that this is mostly after the developmental stage of the business when it has accrued assets and market presence and profitability. Mac an Bhaird (2009) found that firms source finance in a manner consistent with Myers’ (1984) pecking order theory and this shows the importance of profitability in funding the business sector or industry. In a survey of 299 small and medium enterprises, findings indicate that firms with a high level of fixed assets overcome problems of asymmetric information by pledging collateral to secure debt finance. When there are insufficient firm assets to secure business loans, the personal assets of the firm owner are an important source of collateral.

One of the most cited reasons for inadequate availability of credit to SMEs is the rate of loan application rejection, and according to Fraser, (2004), relatively few applications are rejected, the perception among SMEs may be a factor that could account for the decline on the demand side which subsequently project a perception of decreased supply of bank credit. In a study of discouraged borrowers based on SAFE 2009-2011, Mac an Bhaird et al found that firm characteristics are of utmost significance in explaining borrower discouragement. They highlighted the decline in borrowers’ discouragement in more concentrated banking sectors which may be due to the competitiveness of such sectors. They also found that increased regulatory quality increases borrowers’ discouragement.

2.23. The Midlands of Ireland

This study aims to examine SMEs in the Midlands of Ireland and their access to bank financing. Based on preceding reports and literature, it will attempt to highlight the challenges that are encountered in the region and attempt to put it in context. The Irish small and medium enterprises (ISME, 2014) suggest that, SMEs suffer from the disadvantage of having limited human and financial resources and being more locally bound. In being small there is also strength, flexibility, innovation and the capacity to rapidly adjust to changing
market conditions. Considering these unique characteristics of small and medium enterprises, this study looks at the challenges that SMEs in the Midlands have to overcome in order to effectively contribute to the economic growth of the region and how the access to bank lending supports their establishment and growth.

The Midlands of Ireland is comprised of the following counties and population:

Table 2.

<table>
<thead>
<tr>
<th>County</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Laois</td>
<td>80,559</td>
</tr>
<tr>
<td>County Longford</td>
<td>39,000</td>
</tr>
<tr>
<td>County Offaly</td>
<td>76,687</td>
</tr>
<tr>
<td>County Westmeath</td>
<td>86,164</td>
</tr>
<tr>
<td><strong>Total Population</strong></td>
<td><strong>282,410</strong></td>
</tr>
</tbody>
</table>

According to the Midlands of Ireland Action Plan (2015-2017), the region has a strong indigenous non-food manufacturing base with it food manufacturing base achieving growth through the recession and employing an estimated 4,000 people. With the Action plan strategy having identified some long term goals for the region such as positioning the Midlands as a centre of excellence for advanced manufacturing processes and technologies and improved and increased tourism among others, SMEs in the region will be significant stakeholders and partners in the actualisation of the strategic objectives of the Action plan.

Based on most recent CSO figures, there were an estimated 9,302 SMEs excluding agricultural businesses in the Midlands in 2012.
Table 3.

<table>
<thead>
<tr>
<th>Scale of Companies</th>
<th>% of total Number</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,500</td>
<td>91%</td>
<td>Less than 10 employees</td>
</tr>
<tr>
<td>500</td>
<td>5.3%</td>
<td>Between 10 and 20 employees</td>
</tr>
<tr>
<td>200</td>
<td>2.1%</td>
<td>Between 20 and 49 employees</td>
</tr>
<tr>
<td>85</td>
<td>0.9%</td>
<td>Between 50 to 249 employees</td>
</tr>
</tbody>
</table>

A small number of large companies employ more than 250 people in the region.

**Companies’ size and employee numbers. (Source: Midland Action Plan 2015-2017)**

Form the table above, it is clear that a significant portion of the enterprise base of the Midlands is comprised of small indigenous firms. It could be assumed that SMEs access to bank lending in the region will reflect the national trends however this study will attempt to highlight findings specific to the Midlands by collecting and analysing data from within the region.

**2.24. Conclusion**

SMEs financing is one that has generated a lot of interest and policies both at domestic and European level as there are empirical evidence to support the positive impact of SMEs in economic growth through job creation, research and development and innovation. In Ireland, the SMEs sector is dominated by indigenous micro businesses (89.13%), employing between 1 – 9 people. This indicates that the sector constitutes a major segment in the Irish economy hence the importance of ensuring that its growth and quality is one that continues to receive
government policy input and support. As highlighted in the SMEs literature, they are challenged by micro and macroeconomic factors and one of the major constraints noted was the access to bank loans. This is of particular significance in the Irish context where SMEs are mostly reliant on bank loans and overdrafts as their main sources of external financing. Given that the Midlands of Ireland is predominantly comprised of micro enterprises, it may be assumed that they experience certain constraints in accessing bank finance and this research aims to investigate these challenges. The role of ownership, age and size of SMEs has been exhaustively explored and findings from several literatures indicate that they are significant determinants in SMEs access to bank finance. How these factors play out in this region will be investigated.
Chapter 3

Research Methodology

3.0. Introduction

This study investigates the challenges faced by Small and Medium-sized Enterprises (SMEs) in the Midlands of Ireland in their attempt to obtain bank credit for the implementation of various business strategies. Financial input which may be based on the developmental stage of the business, ranging from start-up establishment to growth, expansion and sustainability. This chapter presents a description of the research methodology used for this study, includes a rationale for the sample selection, explains the justification for the selection and examines the procedure employed in the design of the data collection instrument as well as the data analysis process.

Qualitative research methods through the use of interviews were used to gather data required to address the research questions. Specifically, they required the use of methodological instruments through which the research objective will be met. To investigate the challenge of access to bank credit by SMEs in the Midlands, the impact of full access, limited access or denial of applications for bank credit by SMEs as well as questions regarding decision making and strategy implementation, qualitative methods was considered appropriate to build a narrative on the factors militating against access to bank credit.

Unlike quantitative methods that attempt to maximise objectivity, replicability, quantification and generalisability of findings, and are typically interested in prediction, ACAPS (2012, p8), it states that a qualitative research method "provides the opportunity to explore variables and elements in their natural settings and the possibility of discovering other relevant information due to the close proximity to participants who are directly involved with the real life practice of the issues addressed by the research question" (Saunders, 2011; p.130).
Qualitative research has also been conceptualised as “a form of social enquiry that focuses on the way people interpret and make sense of their experience and their environment” (Holloway and Wheeler, 2010; p.30). This research tradition enables researchers to explore the behaviour, perspectives, experiences and feelings of people and emphasise the understanding of these factors. Parahoo (year) adds that qualitative research focuses on the experiences of participants as representatives of the research demography with particular emphasis on the uniqueness of the individual respondent. Significantly therefore, the use of qualitative methods proved useful in generating required commentaries and testimonies for this study. Data relevant to the research objectives were gathered from participants who are actively involved with SMEs and the banking sector and have first-hand knowledge and experience of SMEs access to bank lending. Their participation provided for the investigation of findings of previous research and surveys and the implications of these findings for their various businesses and organisations. With the use of interviews, the researcher was able to get answers to questions aimed at addressing issues raised by the research objectives, probe and achieve new insights into the prevailing circumstances regarding bank lending which had not been highlighted in previous research.

3.10. Methodological Considerations

Qualitative research is exploratory and based on investigation and evidence (Creswell, 2003 p.18- 21). It gathers and examines data from individuals and groups for specific purposes. It is unique in that it provides information about meanings and experiences, particularly from a human angle and in it contextualises the experience to fit particular frameworks. Conclusions based on data collected takes the form of informed assertions and commentaries that can be generalised. Additionally, qualitative methods of research and analysis provides added value in identifying and exploring intangible factors. They explore relationships and perceptions held by relevant persons and communities.
Uniquely however, Creswell (2003) further adds that the qualitative sample must be large enough to include the perception of most, if not all of the important perceptions in the population. The larger the sample size, the less likely the researcher would miss important commentaries. In other words, the objective in designing qualitative research is to reduce the chances of discovery failure as opposed to reducing (quantitative) estimation error. Additionally, random sampling of a population is likely to produce a representative sample only if the research characteristics are evenly distributed within the population. In light of the above, adequate precaution was observed in selecting a representative sample of the population. This is consequent upon identifying and selecting participants that are not only willing but also qualified to participate in the research. By qualification, the study required participants who possessed relevant information for the purpose of research.

Participants were assured of their right of anonymity or otherwise. The purpose of the research as well as the confidentiality of information provided was also clearly communicated. The interview sessions addressed research questions by focussing on the research objectives. Five interview schedules targeted at different segments of identified sample participants were developed. In-depth, open-ended questions were used in order to create the opportunity for participants to answer primary research questions and also provide the leeway to acquire further information that may be relevant to the research topic. The same open-ended questions were posed to all interviewees in similar segments of select relevant sectors.

3.20. Internal and External Validity of Instruments and credibility

Validity refers to the criteria used to determine how effective the instrument design is in employing methods of measurement that will capture the data to address the research questions. It explores the extent to which it can be demonstrated that the data collected are
accurate and appropriate. Denscombe, (2014, pp297-303), points out that by its nature, it is not possible for qualitative researchers to prove in any absolute way that their findings are correct, so they prefer to use the term credibility in order to address the verification of research findings. He stated further that the qualitative researcher may only be able to offer reassurance of the diligence and accuracy of data collected with the application of good practice as the core consideration for data collection. For this reason, it was important to ensure that respondent validation was at the core of sample selection. Internal validity is a confirmation of the accuracy of the study design. Internal validity for this study was established with the use of pilot testing so as to ensure the interview questions were clear, concise and unambiguous.

External validity on the other hand explores the extent to which the results of the study reflects similar outcomes elsewhere, and can be generalised to other populations or situations. To enhance the validity of findings, triangulation results may enhance the validity of findings. The application of triangulation validates research methodology by providing analysis of results from various viewpoints. However, due to time and resource limitations, this research will be primarily based on the use of interview as a method of data collection complemented by documentary sources to enable cross validation of data. Triangulation was used in the comparison of responses from participating banks officials and SME participants.

To ensure the credibility of data used to arrive at the findings of this study, it was necessary that data was gathered from the most relevant stakeholders in the area covered by the research topic. According to Polit et al (2001) credibility refers to the accuracy of gathered data when the research findings reflect the perceptions of the people under study. They further affirmed that a research project is trustworthy when it reflects the reality and ideas of the participants. Streubert and Carpenter (1999) added that trustworthiness of the research depends on the extent to which it investigates participants’ experience alongside their
application of theoretical knowledge. For the purpose of this research, participants that provided necessary and adequate data, relevant to the research questions were purposively selected from the sample population. Additionally, data validity was assured by repeating to participants and confirming that the information obtained was a true reflection of their experiences.

3.30. Interview Research Method

There are a variety of methods of data collection in qualitative research, including but not limited to participant observations, surveys, textual or visual analysis, interviews and focus group discussions. Some of the methods considered for the purpose of gathering data for this study included the use of questionnaires and focus group interviews. This was intended with the assumption that these methods will generate as many responses as possible while capturing a wide range of sample respondents. However, the elaborateness required in conducting focus group discussion as well as the usual low response rate associated with questionnaire respondents were deterrents. The interview method of gathering data from selected participants was eventually decided upon on the basis that conducting one on one interview with participants who operate within the subject area will provide detailed and useful commentaries required to address the study objectives. Furthermore, interviews have the potential of enriching the research as it enables both researcher and participants to explore and probe for much more in-depth information and possibly bring to fore other issues that may have bearing on the research objectives.

3.40. Interviews as the data collection instrument

As an instrument of data collection, the main task in interviewing is to understand the meaning of interviewees’ responses, (Kvale, 1996). A qualitative research interview seeks to cover both a factual and a meaning level, even though Kvale (1996) admits that it is usually
more difficult to interview on a meaning level. Interviews are particularly useful in providing a revelation of the behind the scene occurrences behind a participant’s experiences. It enables the interviewer pursue in-depth information around the topic. It involves the meeting of two or more persons to exchange information and ideas through questions and responses, resulting in communication and joint construction of meaning about a particular topic (Janesick, 2004).

With the objectives of this study in mind, the use of interview was deemed as the most appropriate method of gathering relevant data. The justification for adopting this method include: (1) the core of the research topic is the attainment of a better understanding of the relevant issues by employing and analysing perspectives from SME operators in the Midlands of Ireland, (2) investigate the policies and their impact on the banking sector with the view to understanding policy implication, actions, experiences, sentiments and perceptions of participants and finally (3) to possibly identify variables that may form the basis for future research (Bates et al., 2008).

The use of interviews is a far more personal form of research than questionnaires and focus group discussions. This method enhances working directly with the participants. Although interview data may be used as evidence about people’s perceptions and understanding, it is pertinent to note that responses may be shaped by variables such as if and how the interviewer has influenced the interviewee, and the level of trust and rapport established before and during the interview process. To reduce or eliminate biased data, Kruger and Casey (2000) have advised that small sample does not allow for generalisation; huge data generally may be complex and time-consuming to analyse; responses may not be uniform as the questions are not likely to be standardised; comparison of data may be challenging; interviewer’s bias can influence verbal and non-verbal responses. The use of interviews in this study adequately put the above in context.
3.50. Procedure and processes

In order to ensure accuracy and validity of data, each participant was contacted and briefed regarding the research objectives. Initial contacts were made directly through several visits to branches of some banks in Athlone, Co. Westmeath. This was done with the aim of getting to the appropriate department or officials in order to secure appointments and establish the important process of opening up the communication line. Some participants were contacted via the use of emails and telephone calls. The interviews were carried out at the convenience of the respondents and they were aware of the time frame involved.

As regards SME operators, potential participants were targeted and contacted both physically and virtually (email, telephone and instant messages on social media). Direct contacts ensured that a diverse range of local businesses were pooled for this study. Initial contacts were made by approaching the businesses directly and following up on the objectives of the research. Interviews were set up at the convenience of the respondents.

Enterprise Ireland was contacted through connections on LinkedIn and directly through the local enterprise offices in the Midlands with a view to obtaining contact details and gaining access to new ventures or start-up enterprises in order to establish initial contact and setting up appointments to interview relevant agency representative. With regards to the regulatory authority, initial contact was made by telephone calls and email through the organisation’s website. An appointment was sought to carry out interview with relevant official for the purpose of acquiring significant input from the regulatory agency as well as ensuring that the credibility of results is further validated by incorporating responses of officials of the regulatory agency. The rationale for this is to compare the perception of all other participants on one hand while on the other hand, compare the perception and experience of the
regulatory authority with that of other stakeholders. Interview dates were fixed at the convenience of all participating agencies.

Preparation for interviews focused on the choice of setting/location that offered the least distraction where possible. An explanation of the purpose of the interview verbally was given to each respondent and terms of confidentiality were explicitly addressed. The format of the interview and the length of time it will take were indicated. Contact details of the researcher were presented to respondents and they were accorded the opportunity to clarify any doubts or questions that may be of concern to them. Where the participant is comfortable with the use of voice recording data collection, the interview was recorded accordingly. As back up, notes were taken when deemed necessary.

3.60. Sample Selection (Population) and Rationale

Sampling is a process of selecting a group of people, events or behaviour with which to conduct a study (Burns and Grove, 2003, p31). Polit et al (2001) asserted that sampling involves the selection of a representative portion of whole population. The size of sample selected may be considered a challenge for a researcher, as sampling is closely related to generalisability of the findings. The decision on the number of interviews to conduct in this research was one that presented a challenge as it was expected that a large selection of participants were required, however, Holloway and Wheeler (2002) have noted that sample size does not influence the importance or quality of the study and added that there are no guidelines in determining sample size in qualitative research. Based on this observation, the sample size was therefore trimmed to facilitate in-depth and intensive discussions within the time-frame given.

To further facilitate effective use of sample size, purposive sampling was used. In describing the concept, purposive sampling is defined as “a method of sampling where the researcher
deliberately chooses who to include in the study based on their ability to provide necessary data” (Parahoo, 1997, p19). Saunders et al (2016) noted that this is a non-profitability sampling procedure where the researcher employs judgement in selecting participants that will provide the most relevant data. The rationale for choosing this approach afforded the researcher the opportunity to explore and gather data and information possessed by respondents that are relevant to the research objectives.

The following groups were contacted and interviewed:

Four (4) representatives of SMEs: the rationale for this was to ensure that relevant data is collected, that the data collected address the identified research objectives and that a diverse and representative range of new and existing small and medium enterprises are adequately represented.

One (1) representative each from the two main banks in the Midlands: The rationale for selecting and focussing on these banks was to maximise the time and resources available. In addition to the above, these banks supposedly have a relatively high percentage of banking service operations in the Midlands.

One (1) representatives of government agency responsible for SME grants and support in the Midlands: as a major resource and support agency for new and existing enterprises, information gathered from insiders this agency proved insightful and useful to the research project.

Representative of the financial regulatory authority: with banking regulations as a fundamental factor in determining how banks operate, as well as input from a representative on the impact of these regulations on the research topic provided a basis for comparison with the levels of financial support the banks render to SMEs in the Midlands of Ireland.
3.70. Interviews: design and piloting interview questions

Given that interviewing is the primary data gathering instrument for the research, semi-structured interview was chosen. Questions were carefully designed to provide adequate coverage for the purpose of the research. A large selection of questions was developed in form of broad questions with sub-questions where necessary to enable further probing. The questions were then piloted with some classmates and business students of Athlone Institute of Technology (AIT). The aim of the piloting was identify ambiguities, clarify unclear wording of questions and early detection of necessary additions, or omissions. The necessity to record interviews is one that was considered in order to ensure that accurate documentation and interpretation of responses were taken. This was to ensure protection against the loss of relevant data. This mode of record taking is dependent on the approval of the respondents. All data collected were labelled with the name of participants so as to avoid complexities and complications.

3.80. Observation of Participants

The choice of interview venue was a significant element in the interview process. It not only made participants comfortable and willing to converse; it also provided the opportunity to observe elements and phenomena of interest within the working environment such as signs and symbols within the service-scape that may be relevant to certain research objectives and which may also create prompts for further questioning, backed by physical element of the environment.

3.90. Documentary sources

Documentary and secondary sources were used as supplementary sources of information to either enrich or cross check data gathered from the interview process. They also served to
provide a basis for the verification and exploration of issues pertaining to the research objectives during the interview process. Some of the documentary sources included statistical data from government agencies, leaflets and brochures of participating businesses and organisations.

3.11. Data Analysis and Evaluation

Data analysis means to organise, provide structure and elicit meaning from gathered data. Analysis of qualitative data is an active and interactive process (Polit et al, 2001). Data analysis commenced after conducting the first interview by logging responses to provide for comparison between participants and to identify divergent views and perceptions which in turn made for the possibility of achieving set-out research objectives. Information was analysed qualitatively using a thematic approach based on the number of similar and or divergent responses to interview questions by similar segments and quantitatively based comparative analyses of responses. The use of information technology was employed in data analysis such as the use of Microsoft Excel and other relevant software for data analysis. The use of reflexivity and bracketing was employed as well as intuitively setting aside preconceived ideas relating to the study. It was also necessary to use available resource person(s) within AIT for this purpose with approval from the project supervisor.

3.12. Ethical Considerations

The major ethical consideration in the use of interview process had to do with data protection and confidentiality. It was important to assure all institutions and participants that information gathered is strictly for the purpose of academic research and will not be disclosed to third parties. SMEs that would have been reluctant to reveal their financial details and practices did so, with guarantee of confidentiality. When they did, they rightly expected that their details were used for the purpose of research. Interviews were conducted with utmost
consideration for the right of, and respect for all participants and their organisations. All dealings with participants were guided by honesty, professionalism and transparency. It was also important that all data were properly labelled so that they were ascribed to the relevant participant and research objectives. Efforts were made to ensure that the required level of objectivity was maintained in the discussions and analysis of data throughout the interview process and beyond.

3.13. Limitations

One of the major limitations of this study is the limited access to participants most of whom were uncertain of the purpose of research. Although the purpose of the study was clearly indicated on all communication, many potential participants were not out-rightly convinced. Limited access to potential participants resulted in navigating several inhibitions and delays including but not limited to waiting on responses to emails and cancellation of appointments at short notices. The cost of travel was another limitation in the use of interview as there was need to travel in order to meet up with participants who are scattered across the Midlands and in some cases as far as Dublin. Furthermore, the pressure imposed by time constraint was made more compelling due to other academic commitments such as coursework, assignments and examination preparation.

These limitations notwithstanding, the validity and credibility of the research method employed as well as the data gathered were not compromised. To overcome the challenges imposed by limited access to participants, a broad pool of potential participants were involved. This ensured that the required number of participants was engaged. Additionally, the constraint of resources and time were addressed by working on a reasonable budget deemed adequate for the enormity of this research venture.
Accessing information and relevant data from stakeholder organisations like the banks, department of finance, enterprise Ireland and the financial regulatory authority did not pose huge difficulty as most documents generated by these bodies are publicly available. There was some difficulty in accessing accurate responses from respondents due to subjective behaviours or loyalties to their business or organisations. To ensure accuracy, resources were sourced from the college library with assistance from the department/course librarian and organisations websites.
Chapter 4
Findings and analysis

4.0. Introduction

This chapter presents responses of the research participants to interview questions. It highlights the perceptions and experiences of the participants based on their relevance to the research topic and their roles as stakeholders in the SME and banking sectors.

It lays out a contextual representation of opinions on the various issues highlighted in the literature review and how they affect SMEs’ ability to access bank loans in the region. It also highlights how the various participants perceive these challenges or opportunities and the implications for them.

4.10. The background of participants

A total of seven (7) interviews were carried out comprising two (2) representatives of the major banks in the region, a representative of the state agency responsible for funding and providing other developmental support to SMEs and four (4) respondents from SMEs who are of different age, size and at different stages of growth, with each located in one or more counties in the Midlands.

The results are presented using a thematic approach reflecting the differences or similarities of participants’ responses in relation to the research objectives. This assures the ability to observe their views and statements on the different themes and forms the basis of discussion of findings and recommendation in the next chapter.

One-on-one interviews were carried out with participants after initial contacts were made through emails and telephone calls. All participants chose venues that were convenient for them and before the commencement of the interviews they were assured of the purpose of the
study and that all information provided will be treated with utmost confidentiality. All participants were very cooperative although indicated that they did not want the interview recorded and were willing to accommodate note taking and clarifications during and after the process. Each interview lasted an average of 30 minutes.

4.20. Financial challenges and decision making of start-up enterprises in accessing external financing

4.21. Preference for external sources of financing

The representative of the agency responsible for SMEs funding was of the opinion that most start-up enterprises would prefer to source for initial funding through the use of owner-savings or borrowings from friends and family. The respondent suggested that since the Irish government have strategies and programmes in place such as start-up grants and other forms of support, new businesses have alternative sources of accessing external funding rather than going directly to the banks. He went further to state that owners of start-up enterprises “do not have a favourable perception of their ability to access bank loans to get their businesses off the ground”. However, the respondent from the start-up business indicated that she would have preferred the use of external financing at this stage of her business as it would “stop me from using my personal savings”. She was of the opinion that having the bank involved at the initial stage would present her with not only the finances required but will create the opportunities to get additional forms of support from the bank and enable her make important capital investments and ease the problem of cash flow. Significantly, this will also give her the motivation to manage the business as a strictly business and profit making venture and ensure accountability which “truth be told, is difficult to account for expenses when you are using your own money to manage a business and at the same time, run a home”.

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On the other hand, one of the banks’ representatives observed that most of the start-up enterprises that approach his bank for loans had already secured Credit Union loans at the initial set-up phase of the business. “The Credit Union is fast becoming a source of initial funding for new businesses especially for those starting from home and not requiring significant initial capital outlay”. He said that most often, these loans are for the purpose of home improvements, purchase of vehicles and insurance payments. The start-up participant however did not use financing from the Credit Union but secured external funding from government grants to get her business going. The agency representative highlighted that securing government grant to start a business may ease access to bank finance as the viability of the business may be assured when a bank knows that initial funding has been approved as they assume that relevant planning and projections have been made prior to approval of the grant. “Since we approve certain percentages of total funding requirements, the banks in my experience, will be willing to provide some forms of financing to start-ups, such as overdrafts and provide planned payments to suppliers especially where expensive machineries are involved on a hire purchase or leasing arrangement”.

4.22. *Ease of access to bank financing for start-ups*

The representative of the start-up enterprise was unsure of the ease of access to bank lending by new businesses as she has not approached any bank for same. She however states that “the banks say they are making it easier, but I really do not know”. The respondent from the agency indicated that it is not easy for start-ups to access bank lending due to several factors such as the unwillingness of new entrepreneurs to source for external funding from the bank. He stated that a lack of awareness of financial products and facilities offered by banks to start-ups is the main reason for the challenges experienced by new businesses in accessing bank credit. “Even when they do know about these products, they are mostly not in a position to meet the banks’ requirements and the fear of default and the implication for future credit
rating is real for new entrepreneurs”. He went on to suggest that because their ideas were at
the developmental stage, most of them want to maintain control of the business so as to
ensure that they do not lose the ability to make decisions that will impact their businesses.

4.23. The purpose of external finance

The start-up participant indicated that external funding will aid cash flow and possibly help in
products and services development which will translate into the growth of the business. “At
the moment external funding from grants is helping with this but mostly personal funds are
used to ease the cash flow problem as the profit margin is still very minimal”. The agency
representative was of the opinion that as the business develops, and due to the initial dearth of
profit and depending on the attainment of breakeven, an injection of external funding will
ease cash flow and to some extent, limit the stress levels of entrepreneurs as they may be able
to focus on developing and implementing strategies that will grow their business.

4.24. Reasons for successful loan application by start-ups

The agency representative suggests that having a viable business plan and in some cases
“owner funds” are some of the criteria necessary for successful loan applications. He
however highlighted that most start-ups, despite meeting these criteria, may still not be able
to get approval for loans as they are mostly not in a position to present collateral and personal
guarantees.

4.30. Financial challenges and decision making of SMEs in accessing external
financing

4.31. Preference for external sources of financing

Small and medium sized enterprises that have been in existence for between 3 – 20 years
were interviewed. Of the three, participant 1 (the youngest) was unsure if, given the
circumstances, he would have preferred the use of external funding. He stated that at the time, he had no need for it as he had adequate personal funding to start the business. Participants 2 and 3 however suggested that they preferred the use of external financing at the initial stage and did make use of bank finance at that phase of the business. Participant 2 indicated that this was used to make “down payment on machinery and equipment” while participant 3 stated that it “eased the problems of cash flow”.

4.32. **Ease of access to bank financing at growth phase**

Participant 1 was of the opinion that it is not easy to access bank lending at the start-up phase but that as the business grows and the turnover increases, bank are more willing to lend to established businesses with visible and documented track record and reputation. He stated that “banks do not want to take the risk of investing in a new venture”. Participant 2 and 3 suggest that this may be the case due to the financial crisis, but that based on their experience, this was not so when they started pre-recession. All participants agree that it is easier to access bank lending as the business grows and there is possibility of expansion.

4.33. **Impacts of Bank lending on business development**

Participant 1 was of the opinion that bank lending will be instrumental in expansion beyond the Midlands and will free up owner’s initial investment for working capital. Participants 2 and 3 echo these sentiments, with participants 2 stating that “bank loans have enabled and will enable us make capital investments, develop and create new services and expand our business”.

Participant 1 currently does not have any bank loan but does rely on supplier credits and regularly negotiate and explore options of cost reduction by sourcing from cheaper suppliers “while maintain our standards”. Participants 2 currently have bank loan while participant 3
has a mixture of bank loans and overdrafts. On their willingness to apply for bank loan, participant 1 stressed that the business does not need it at the moment as they have no major investments plan, this may be a consideration for the future and “the fact that we are doing well might stand us in good stead with the bank”. Participant 2 opines that they have no hesitation to approach the banks for loans or any other relevant financial assistance. Participant 3 on the other hand, who have been in business for well over 25 years, stated that they do not currently have any loan facilities with the bank as they are able to meet all the business financial requirements through a well-orchestrated financial strategy involving efficient creditor–debtor management with both customers and suppliers.

4.34. Personal guarantee and collateral in securitised lending

Participant 1 does not currently avail of any external funding; however, participant 2 stated that the ability to present the bank with acceptable collateral was a main criterion for approval of loan application. Participant 3 indicated that the use of owner guarantee was necessary in some previous instances of loan application and that the provision of collateral was not a major requirement pre-recession as the business was and still is heavily involved in the construction industry “which was perceived to be doing well at the time”. However, post-recession, this has become a major pre-requisite to secure bank credit.

With regards to loan approval levels, both participants 2 and 3 indicated that the amounts approved by the banks were in most cases above 75% of amount applied for. In addition to this, the inclusion of overdraft facilities in most cases (according to participant 2), provided the business with the ability to meet its financial obligations”. None of the participants (2 and 3) have had their loan applications rejected which, according to participant 3, is largely due to the existing relationship with the bank and the recent positive macro-economic outlook of the country.
Participant 1 believes that a successful loan application may be dependent on the SMEs' ability to meet banks’ requirements and their internal policies. On the other hand, participant 2 cites viable business plan or strategies, future cash flow projections, product or service demand and market position as determinants of successful loan applications. Participant 3 reiterated these views and suggested that an expansion plan or growth strategy is also a factor in securing loan approval.

4.40. Bank lending to start-ups in the Midlands

To assess the level of bank lending to start-ups in the region, representatives of two major banks were interviewed. Findings from the viewpoints of the banks present a basis upon which comparison can be made with the experience and perception of other stakeholders.

4.41. Motivation and willingness of start-up in the region to seek external finance

Participant A stressed that owner willingness and to some extent having own funds or some SMEs grant are main motivations for the start-ups willingness to seek external funding from the banks. The representative of Bank 1 indicated that entrepreneur’s motivation for success is a factor that encourages start-ups to come to the bank for debt financing. He further stated that in the absence of other sources of funding, the banks are the most relevant option for start-ups. The representative of Bank 2 was of the opinion that banking advertisements, partnership with government agencies and educational institutions presents a platform upon which the bank creates awareness on the various financing products on offer to start-up enterprises.

Bank 2 supports the assertion by participant A that start-ups who have already commenced the business with funds from other external sources like the Credit Union and government grants may be more willing to approach the banks. He also went on to state that having
personal savings or mortgage with the bank may present a motivation as this is the general belief that an existing relationship provides the bank a basis upon which to build on or establish further business relationship. Bank 1 on the other hand stressed that willingness to approach the bank is largely dependent on the financial requirements of the business and the promoter’s confidence on the viability of the venture. He stated that “they would have determined that they need bank financing. They may require this for working capital purposes, cash flow, and in some instances, to avail of some of our start-up packages”.

On the reasons for start-up unwillingness to seek bank lending, Bank 1 suggests that lack of a good business plan, unwillingness to access bank lending for personal reasons like perceived loss of control may be contributory factors. Bank 2 on the other hand indicated the perceived impact of lack of reputation, credit history and availability of own assets and funds. He however stated that this perception is not a reflection of the bank’s lending policy to start-up enterprises.

4.42. Awareness of bank lending procedure and requirements by start-ups in the regions

Representatives from both banks were of the opinion that start-up enterprises are familiar with bank lending requirements and that their advertisement drive helps in creating the necessary awareness on bank lending to new businesses. Bank 1 stressed that based on the assessed financial requirements of the business; “the promoter will explore all possible sources of external financing and “calling the bank is a sure way of ensuring that they can make informed decision on the best form of bank financing available to them”. Bank 2 on the other hand indicated that the bank is actively involved in promoting its start-up financing and to this end “informs our partnership with third level educational institutions and enterprise boards, establishing our presence in second level education in order to create awareness among young people on banking services and products”. They both agree that start-ups
cannot independently make informed decisions on bank lending without actually establishing a business relationship with the banks upon which they can make those decisions that are suitable for business development and meeting their financial needs.

On the reduction of the rate of unsuccessful loan applications and the role of awareness of bank lending policies, Bank 1 stated that “making informed decision in loan application especially applying for the product that best suits the business is a basis for successful application”. Bank 2 stressed that having “80% success rate of loan approval for start-ups is a reflection of the awareness drive of the bank and the support we provide to those who approach us for bank credit”.

4.43. **Bank lending to established SMEs in the Midlands**

Both banks indicated that they have a high approval rate for bank loans to SMEs in the region. Bank 1 stated that “We have a high success rate of loan application in the Midlands stressing that the rate of successful applications is dependent on the business and its assessed viability. Bank 2 indicated that “we have above 80% rate for successful loan applications for established SMEs in the region”, and went further to indicate that this is a reflection the bank-wide rate across the country and approval is to a large extent based on the purpose for which loan is sought.

4.44. **Bank lending policy, requirements and suitability for SMEs**

On banks requirements and repayment structure, both banks indicated that they work with businesses to ensure that the requirements, not only safeguards the loan, but suits the business needs. Representative of bank 1 emphasised that “We can help the business succeed without placing unrealistic conditions on a potentially viable venture or investment”, while bank 2 stressed that the bank endeavours to be flexible in this regard stating that repayment
structures are generally tailored to suit the business needs, “for example, some businesses may highlight in their applications that they may require 5 years, but the bank may determine that they could in fact require a longer or shorter time”.

For SMEs who have credit facilities with banks, participants 2 and 3 indicated that loan repayment structure were tailored to suit their business needs and activities. They both claimed to have the option of re-negotiating payment terms with their respective banks. Participant 2 said re-negotiation may be due to the business plan and ability to meet bank requirements, while participant 3 is of the opinion that the business activities are known and verifiable by the bank.

4.45. **Reasons for increase or decline in the rate of established SMEs application for bank credit**

Both banks are of the opinion that established SMEs in the region are increasingly approaching the banks for credit and that this is mostly driven by the positive economic outlook and increased consumer demands for goods and services. Representative of bank 1 states that “the bank is at the forefront of SMEs financing and we are working diligently in sending the message out there”. However, the representative of bank 2 highlighted that availability of government funding that SMEs could access through the banks also encourages the banks to support these business in achieving their objectives. He stressed that established SMEs may have existing relationships with the banks and this is of immense benefit when considering the outcome of a loan application as the bank is already familiar with the business and its financial activities. “This definitely reduces turnaround time”. Highlighting the demands and innovative products and services, he went on to suggest that businesses are not as cautious to grow and expand as they were in previous years due to the recession.
4.46. **Actions taken by banks to encourage borrowing by established SMEs in the region**

Bank 1 stated that the bank works with businesses on a needs basis. On the other hand, the representative of bank 2 highlighted the provision of Short term lending on a non-secured basis to existing SMEs as and when appropriate. He stressed that “for some business types and circumstances, the use of collateral may not be possible therefore the bank tries to meet the customer’s need by being proactive and flexible in providing credit facilities”. He indicated that this is also a consideration in the use of bank overdrafts.

4.47. **Business types and activities that banks are more inclined to finance**

Representative from bank 1 stated that the bank does not have a preference for financing specific aspects of a business as “we do not have a one size fits all approach”. He however stated that the bank would finance viable businesses plan and strategies based on their requirements taking into account the stage of development and the growth ambition and potentials. On the other hand, the representative of bank 2 echoed the same sentiments, but went on to state that “growth and diversification, new markets or market penetration based on the success of existing products or service will be significant areas of interest”.

Representative from the agency stated that there is no specific start-up type that will be most likely to seek bank loans. On the other hand, participant 2 and 3 indicated that the type of business activities and purpose for which the loan is sought is a consideration in seeking bank loan. Participant 3 stressed that “Pre-recession, the construction industry was one of our main target markets” so we were able to access bank lending to finance this aspect of our business.

4.50. **Creditor – debtor relationship and growth of SMEs and start-ups in the region.**

With regards to banking relationship, questions were posed to all participants to ascertain the relevance and significance of this relationship in loan application and approval rates. All
participating SMEs indicated that they have banking relationship with single banks for business purposes. The representative of the start-up enterprise stated that banking relationship at the moment is only to manage the business bank account “no advisors or lending facilities”. Participant 1 suggested that having a banking relationship with the bank ensures that “when needed we have a foundation upon which we can build a lending relationship with the bank”. Participant 2 indicated that the business has a good working relationship with bank staff and know most of them, he went on to state that “having some contact does help with other supports and guidance such as advice on what products to use and how best to manage our finances”. Participant 3 however believes that having a specific contact in the bank made it easier to access information and other banking services. He suggested that “we have access to relevant information, awareness of bank policies and products or changes that may affect our business. All the established SMEs indicated that they have contact persons in their respective banks and participant 2 was of the opinion that this relationship does not have any significant impact on the outcome of loan application. Representatives from both banks are of the opinion that having an existing creditor-debtor relationship or personal banking relationship with the bank in some way reduces the turnaround time for loan applications. Representative of bank 1 stated that “successful loan application is dependent on the business plan, future projections and the viability of the venture. Of course the ability to repay is a significant aspect of the assessment process; however, with existing relationship, it does mean that we already know the business, strategies and potentials”. Representative of bank 2 stressed that approval is however dependent on the viability of the investment but having a banking relationship with the bank means that the bank already know their business and transactions. This may have a positive impact in terms of turnaround time for loan application.
4.51. **Credit decision making and bank structure**

The decision making structure of the bank may be a fundamental determinant on the rate of loan application approvals or rejections. A decentralised-localised decision making would imply that the Branch is able to approve loans based on local knowledge and relationship with local businesses, while a centralised structure may limit the ability of local managers to make the decision regarding credit applications of local businesses. Representative of bank 1 stated that the bank have business teams who support SMEs and work with them on their financial requirements in our branches, stressing that bank wide guidelines and requirements must be met before applications are approved and decisions taken at branch level are based on these guidelines.

The representative of bank 2 indicated that the bank operates based on internal lending policies that provide guidelines for loan applications and requirements are clearly stated for all credit facilities. Branches do have local knowledge of the businesses but the debtor-creditor relationship is not the main determinant of successful loan application. He emphasised that “It only means that we have first-hand experience in dealing with the businesses in our area”.

4.60. **SMEs growth and expansion as determinants of successful loan application**

Participants 2 and 3 indicated that it is easier to access bank lending for expansion and growth. However, Participant 2 stated that, considering the stage of the business, and its ability to generate funds internally, “we may not require bank loan in the future”. Participant 3 indicated that they have in the past secured bank loans for the purpose of expansion. “Bank will provide and have provided debt financing for our expansion into new markets”. Representatives from both banks indicated that they would support businesses looking to
grow and expand but the decision to grant credit facilities will be based on the assessed viability of the SME’s strategies and the viability of same.

4.70. The impact of bank regulations on ability to meet the needs of SMEs

On the extent to which bank regulations affect the ability of the banks to lend to SMEs, the representative of bank 1 stated that banks are required to adhere to regulatory requirements and the bank has in place internal policies that are developed and implemented to take these regulations into account. He stressed that the bank deals with each loan application on its merit and the ability to meet all stipulated requirements.

On the other hand, representative of bank 2 suggested that there has been no significant impact on the bank’s lending to SMEs in the region stressing that the bank already offers a wide range of flexible and adaptive credit facilities to businesses, and these have been designed to meet regulatory requirements.
Chapter 5
Discussion

5.0. Introduction

In this chapter, the research findings are presented and discussed. It will attempt to explain the findings in relation to the research objectives and how these reflect the findings of other studies and literature on bank lending to small and medium enterprises (SMEs).

Each of the research objectives will be presented and discussed based on identified themes that attempt to answer the research questions, explain participants’ responses and how these responses lead to the research findings.

5.01. Financial challenges and decision making of start-up enterprises in accessing external financing

The challenges encountered by start-up enterprises in accessing bank lending and how these challenges affect decision making are broken down into themes that were addressed in research findings as laid out in the previous chapter. They are discussed here, under start-up business’ preference for external sources of finance, the ease with which they access this source of funding, the purpose for which they seek external finance and the reasons given by start-ups as accountable for successful loan applications.

5.10. Financial challenges and decision making of start-up enterprises in accessing external financing.

5.11. Theme 1: Preference for external sources of financing

Findings from this study suggest that start-up enterprises have a preference for the use of owner funding or government funded grants at this initial stage of their venture. They will opt
for the use of personal savings; money from friends and family and in some instances when needed, may apply for personal loan from the credit unions. This reflects the findings of Mac an Bhaird and Lucey (2006), who discovered that owner funds and external debts collaterised by personal assets of the owner were the main sources of SMEs finance in Ireland. They noted that this was most prevalent in younger firms. This study found that although some of the SMEs surveyed indicated that they would have successfully applied for and used bank loan at the start–up phase of the business, these were however, older SMEs who were established pre- recession. Among younger SMEs, indications are that they will not consider accessing bank lending. According to Huyghebaert and Van de Gucht, (2007), who suggested that financing requirements of a start-up SME may be heavily dependent on internal or owner funding sources, this position is supported by the Pecking Order Theory (POT), which states that the capital structure decisions of a company is a function of its age (Myers, 1984), this theory is based on the belief that internal funding is used and external sources of finance is only accessed when this option is exhausted. This research found that most start-up enterprises in the region preferred to use own financing mostly because it is considered easier to access, no loss of control, cheaper and going by the POT, if the need for external funding does arise, most start-ups have the option of applying for state funding. However, there are indications that securing government funding may encourage new businesses to approach the banks for debt financing. Other findings suggest that entrepreneur’s motivation for success is a factor that encourages start-ups to come to the bank for debt financing. It may therefore be assumed that in the absence of other sources of funding, the banks are the most relevant option for the start-up.

This finding suggests that start-up SMEs currently do not have a preference for bank loans. This was largely due to the perception that it is difficult and expensive to access bank lending. In addition to this, the availability of state support could reflect the recognition of the
challenges that start-ups in the Midlands of Ireland face in funding new ventures. It may therefore be assumed that without this option it would be very difficult for new businesses or entrepreneurs to fund their business. It is however important to highlight the fact that Irish SMEs generally are largely dependent on banks for loans and overdraft facilities as the primary sources of external debt financing compared to most European countries as indicated in the report of the European Banking Authority (EBA, 2015). This supports finding where respondents indicated preference for bank lending mainly for the purpose of accountability and good financial management practices as the implication for using own fund may not demand the necessary financial discipline that would be required with the use of external financing. The conflict however, was the fear of loss of control at a critical stage where most entrepreneurs feel that they need to make all decisions to ensure that they do not lose the core values that they aim to produce and provide for their target customers. Indications from the banks suggests that start-ups’ willingness to approach the bank is largely dependent on the financial requirements of the business and the promoter’s confidence on the viability of the venture.

5.12. Theme 2. *Ease of access to bank financing for start-ups*

According to the CSO report of 2014, applications from high-potential start-ups and other high growth enterprises achieved a success rate of over 70%, compared to lower growth SMEs who recorded a success rate of 47.3%. This may imply that some SMEs have experienced significant levels of credit constraints due to their inability or unwillingness to access bank lending.

Lawless (2011, p5), stated that evidence points to the fact that it can be difficult to convince banks of the viability of start-up enterprises especially among younger firms who do not have the reputation and documentary evidence or track record to show their potential for growth.
and viability in order to present a low risk profile to banks. This position is echoed by one of the research respondents who opined that most start-up enterprises would prefer to source for initial funding through the use of owner saving or borrow from friends and family. This may have informed the development of strategies and programmes by the Irish government which provides initial funding for start-up grants and other supports, making it possible for new businesses to access alternative sources of external funding other than going directly to the banks. From these research findings, as much as start-ups do not have a favourable perception of the ease of access to bank lending, the availability of alternative government-backed financing may hinder the willingness of start-up enterprises to approach the banks for initial funding. Considering the CSO 2014 Access to Finance Survey which observed that applications from larger SMEs were more successful compared to smaller SMEs or new enterprises, the ease of access to bank lending from the perspective of the participants of this study was largely unfavourable. This was reflected in the response by participants who were either unsure of the ease of access largely due to the fact that they had not approached that banks for financing as a result of reason given above and the fact that most start-ups think that is difficult to access bank lending due primarily to the unwillingness of new entrepreneurs to source for external funding from the bank, indicating that the financing requirements of a start-up SME may be heavily dependent on internal or owner funding sources. According to Huyghebaert and Van de Gucht (2007), also emphasised by Berger and Udell (1998), this is due to the unique characteristics of these enterprises such as informational opacity, and often times, a lack of trading history. The perception of banks’ unwillingness to lend, previous rejection of loan application which is characteristic of discouraged borrowers may also account for the perceived difficulty faced by start-ups in accessing bank financing. Mac an Bhaird et al (2016, p2) citing Levenson and Willard, (2000); Cavalluzzo and Wolken, (2005), pointed out that a significant impediment to
investment may be the decision of a business owner not to apply for intermediated debt due to fear of rejection, this position was found to be largely the most prevalent impediment to access bank lending. The banks are of the opinion that they will support start-ups who actually approach them for finance by proving support in the loan application process, assisting in the development or amendments of business plan and strategies so as to ensure that finance is advanced to viable ventures. This is the main reason why they have dedicated teams who deal with start-up enterprises. However, the difficulty for start-ups is that the fear of rejection, the loss of control and the availability of government backed financing and access to other lower interest credit such as the credit union financing appear to be more attractive options compared to bank lending. The banks however have indicated that the need for creating an awareness of various credit facilities available for start-up enterprises has formed the basis of marketing strategies through the use of both electronic and print media advertisements. The general consensus is that start-ups can only make informed decision on the type of financing to access after approaching the banks. It was found that bank do not have a preference for financing specific aspects of a business as they would finance viable businesses plan and strategies based on their requirements considering stages of development and the growth potentials.

The ease of access to bank financing is very important for SMEs especially start-up enterprises, this is more so when considering the need for good financial management, accountability and reporting. It may be a contributory factor to the success of a new enterprise where the owner is most likely the only employee and may not be accountable to anyone but himself, having a financier or the bank as the funder may instil good financial management practices and the possibility of developing effective business strategies that will help to grow the business such as the need for product development, market expansion, penetration and diversification. Considering the importance of SMEs in the economic growth
of the region, this could enhance the possibility of growth through the creation of employment opportunities and sustainability of such businesses.

5.13. Theme 3. The purpose of external finance for start-ups

It may be inferred from the research findings that start-ups do not have a favourable perception of their ability to access bank loans to get their business off the ground. There was however a perception that accessing bank lending may improve accountability and increase the chances of accessing professional financial advice and support. As opposed to the use of personal savings, having the bank involved at the initial stage of the business may provide the motivation to manage the business as a strictly business and profit-making venture ensuring accountability which may be difficult when start-ups are dependent on their own personal savings.

According to Berger and Udell, (1988) and Gregory et al., (2005), small and medium enterprises exist not only on the basis of profit maximisation, but often times on assumption that growth is a desirable outcome. To this end, the use of external funding may aid the cash flow and possibly help in product and services development which will translate into the growth of the business. It is important to note that as businesses grow and develop to a point where the enterprise may not record significant profit margin or attain breakeven point, the use of external funding will ease cash flow and limit to some extent, the stress levels of entrepreneurs as they may be able to focus on developing and implementing strategies that will grow their business.

Vos and Roulston, (2008) in a survey carried out by the Federation of Small Businesses, responses from 18,635 (rate of 12.02%) indicated that most SMEs rely on internal sources of funding and external debts from financial institutions to finance operations and growth. This finding is reflected in this study where the use of external financing by start-ups, is mainly to
address the issue of cash flow, working capital and the funding of capital investments such as the purchase of machinery, down payment on leasing and other capital-intensive expenses. This is important as it may be assumed that most start-up do not have the money to fully finance their venture while at the same time taking care of the day to day financial requirements of the business such as marketing, travel, utility, and other expenses that may require immediate or termed payments. The use of external financing eases the cash flow and ensures that they can focus on implementing strategies that will guarantee long-medium to long-term profitability.

5.14. Theme 4. Reasons for successful loan application by start-up

There is no evidence to show that smaller businesses in the EU are disadvantaged by size with regards to loan applications (Leitner and Stehrer, 2015). Riding et al (2012), in their survey of data of actual loan application by entrepreneurs found that preferences do not adhere to a homogeneous prescription. Results showed that growth objectives, nature of ownership, age of business, size of business and the sector are significant considerations in successful applications. It was found that most of the start-up enterprises that approach banks for loans have come up as having secured Credit Union loans at about the time of the business start-up phase. Findings suggest that the Credit Union is fast becoming a source of initial source of funding for new business especially for those starting from home and not requiring significant monetary investment. Start-ups appear to be increasingly accessing personal loans from the credit unions for the purpose of investing same in their new ventures. However, the most prevailing reason given by respondents for successful loan applications was the need for a viable business plan. The significance of having a clear and realistic but also viable plan is one that the banks may not be able or willing to overlook when considering loan applications from start-ups. Although most banks rejected the notion that creditor-debtor relationship plays any role in the success of loan application they were
however of the opinion that consideration may be given to a promoter’s banking and transactional history with the bank or another bank. Considering the fact that most start-up enterprises may not have transactional history, it may then require the use of owner bank account activities as a source of confirming the level of activities and financial aptitude of the promoter. It may therefore be inferred that the use of other tools such as personal guarantees, collateral as indicated by some respondents may be key determinants of a successful loan application. The ability of the start-up to meet the banks’ credit requirements is the main yardstick for successful loan application. The ability to meet these requirements constitutes the difficulty of accessing bank financing by these businesses.

As indicated by a participant, the ability of start-ups to show that they have already secured part of their funding requirements from other sources such as government agencies may stand them in good position to access bank financing as it may be assumed by the banks that due process have been carried out by the government funders and therefore the venture may be viable.

5.20. Financial challenges and decision-making by SMEs in accessing external financing.

Financial challenges as experienced by SMEs and how they affect their decision-making processes with regards to accessing external sources of financing are discussed in this section with emphasis on SMEs preference for external source of finance, ease of access to bank finance, impact of bank lending on business development and the place of personal guarantee and collateral in securitised lending.

The situation experienced by established SMEs in accessing bank lending is significantly different from that encountered by start-ups. It may be assumed that due to the phase, size and age of these businesses, established SMEs have established reputation and documentary
evidence of their performance which is easily measured and verifiable for the banks. These businesses may also exhibit growth potentials which may incentivise the banks to advance credit to them. However the ability to maintain sustainable profit margins may also constitute criteria for easy access to bank lending for the purpose of working capital.

5.21. **Theme 1. Preference for external sources of financing**

Financial needs and options available and accessed by SMEs depend on the various phases of the business lifecycle, Berger and Udell (2008). Cassar and Holmes, (2003) in explaining the Pecking Order Theory (POT), indicated that the order of preference for financing SMEs progresses from internal equity, issuing debt and ultimately issuing external equity. Cosh and Hughes, (1994) who stated that the positive relationship between the use of retained profits and the age and size of the firm indicates that surviving firms are increasingly reliant on internal equity as accumulated profits are reinvested, suggests a tendency by SMEs to use capital which minimises intrusion into the business by external financiers or investors, and is particularly consistent with the POT.

Going by this theory, finding from this study suggests that the use of external finance is mainly used by established SMEs for the purpose of working capital, new investments and expansion. Medium enterprises may have the capacity to use internally generate funds for the purpose of working capital. They mostly do not require huge injection of external financing from the banks as they have the ability to generate enough profit to reinvest into the business. Findings also suggest that they have contractual agreements with suppliers and other stakeholders where they are able to benefit from various incentives such as suppliers credit, termed payment, leasing, and the likes. The financial requirement to finance growth and expansion therefore forms the basis of their demand for bank loan.
The study indicates that most established SMEs in the region are not ambivalent in their preference for bank lending. Findings suggest that they view bank lending as a valuable source of financing that they can access when and if necessary. The preference for this form of financing and the decision to access it is one that is strategic in nature for the established SMEs.

5.22. **Theme 2. Ease of Access by established SMEs**

Participants were of the opinion that established SMEs face fewer challenges in accessing bank loans due to the fact that they have verifiable financial activities and reputation and the risk of default may be considered low in comparison to start-ups. According to CSO (2014) report, almost half of SMEs expect to seek bank finance in the period 2015-2017. The main purpose for future financing as reported by SMEs in the survey indicated that 36.5% will be looking at debt financing for working capital and 17.9% for investment and growth financing. Indications based on this survey shows that bank lending is viewed as a major source of SME financing and will remain so as indicated in the projections of respondents of the survey. This reflects finding in this study where SMEs indicated that external financing from the banks is one of the major sources of financing growth and expansion. The ease of accessing bank finance by this group of SMEs is considered to be relatively less difficult as they may be able to meet banks’ requirements and present a less risky investment for the banks.

5.23. **Theme 3. Impacts of Bank lending on business development**

Participants were of the opinion that bank lending will be instrumental in ensuring expansion beyond the Midlands region as it will provide businesses the much needed ability to free up internally generated revenue for working capital. In implementing growth strategies, most participants indicated that they have no reservation in approaching the banks for financial
assistance. ISME, (2014), suggests that SMEs in Ireland face more acute difficulties, in terms of access to, and pricing of credit compared to other European countries. The report emphasised that banks in the country are mostly interested in lending to “safe” SMEs, whereas the real difficulties lie in the present environment faced by SMEs that are considered “not too safe”. Indications from this study reflect this perception. Participants from established and profitable SMEs in the Midlands were more upbeat about their ability to access bank lending for any purpose, but more significantly for growth and expansion as opposed to young and smaller SMEs who either are unwilling to access bank lending or perceive the banks as unwilling to lend to ‘risky’ and ‘untested’ businesses such as theirs.

Banks in the region are of the opinion that established SMEs in the region are increasingly approaching the banks for credit and that this is mostly driven by the positive economic outlook and increased consumer demands for goods and services.

5.24. Theme 4. Personal guarantee and collateral in securitised lending

Mac an Bhaird (2009), in a survey of 299 Irish SMEs found that age, size, level of intangible activities, ownership structure and provision of collateral are determinants of the structure of Irish SMEs. Findings suggest that most Irish firms address the issues of collateral in two ways; the provision of personal assets as collateral for business debts and the use of additional external equity to finance certain aspects of their business. According to Carroll et al (2015), 11% of Irish SMEs with new or improved products or services are likely to have personal guarantees. They also found that making profit or breaking even in the previous six months decreases the probability of personal guarantee use by 9% and 12% respectively. This was however in contrast to findings in this study where participants indicated that they have been required to provide personal guarantee or collateral post-recession. Some of the banks did suggest that they do offer some form of non-securitised credit facilities to relevant SMEs.
who meet certain criteria as stipulated by the bank. This scenario may not prove challenging for established SMEs but most probably presents challenges to younger and new enterprises.

5.30. Creditor-Debtor relationship and growth of SMEs in the Midlands.

The relationship that exists between banks and SMEs may be considered a major factor in the outcome for loan applications. Gordon and Metrick, (2009) found that traditional relationships with a single bank form the most prevalent source of financing for European SMEs. Petersen and Rajan, (1994), Sapienza, (2002) highlighted the fact that most SMEs credits are mainly from a single intermediary where the SMEs have established lending relationship with the bank. SMEs in this study indicated that they have banking relationship with single banks for business purposes. The opinion is that having a banking relationship with the bank may ensure that they can easily access supports and guidance such as advice on what suitable credit packages will ensure prudent financial management. Findings from banks however suggest that established SMEs relationship does not have any significant impact on the outcome of loan application. The most significant impact of creditor-debtor relationship as it affects bank loans may be in the turnaround time as it was suggested that this relationship may reduce the turnaround time for loan applications. Loan approval in the region as indicated by the banks is dependent on the viability of the investment but having a banking relationship with the bank means that the banks already know their business and transactions.

The key determinant of a successful loan application depends on factors such as conformity with bank-wide guidelines and requirements that must be met before applications are considered for approval. Such guidelines and requirements may include viability of the business, track record, credit history, business plan, cash flow projections and repayment capacity among others. A decentralised-localised decision making structure would imply that
a branch is able to approve loans based on local knowledge and relationship with local businesses. Branches do have local knowledge of the businesses but the debtor-creditor relationship is not the main determinant of successful loan application. The emphasis is that the branch has first-hand experience in dealing with the businesses in that locality.

In conclusion, findings in this research suggest that new and young businesses face much more difficulties in accessing bank lending and the real or perceived difficulty contributes to the unwillingness of these businesses to seek bank lending at the start-up phase. Established small and medium enterprises in the region however appear to have fewer difficulties and are more inclined to apply for bank financing when required. The banks have in place strategies and products designed to cater to different types of businesses in the region; however there exists negative perception by start-ups in the region and this reflect findings of existing literature and research on access to bank lending by this group.
Chapter 6

Conclusions

6.0. Summary of Findings

This study was carried out to ascertain the challenges faced by small and medium sized enterprises in the Midlands of Ireland in accessing bank lending for purposes of establishing new businesses and sustaining or growing existing ventures.

A qualitative research method using interviews with relevant stakeholders was applied in gathering data. Purposive sampling was used so that the study was able to focus on acquiring data from participants who have direct experience of the impact and implementation of strategies relating to the research questions. Interview questions were designed to address issues relating to the research questions and were effectively used as a data gathering tool applied to respondents within a 4-month period running from March-June of 2016.

Findings in this study addressed the following research questions:

- What are the challenges faced by start-up enterprises in accessing finance from financial institutions?

- What are the challenges that existing small and medium enterprises in the Midlands encounter in accessing credit facilities in sustaining and expanding their businesses?

- How do banks perform their role of providing support to new businesses?

- How do banks perform their role of providing support to Small and medium enterprises in terms accessing finance for growth?
In what ways have the relationship between banks and small and medium enterprises in the Midlands of Ireland fostered the growth of SMEs in the region?

In response to the first research question; dealing with the challenges faced by start-up enterprises in accessing finance from financial institutions, a start-up enterprise and funding agency responsible for supporting new businesses were interviewed. Findings from both respondents suggest that start-ups experience much more difficulties in accessing bank lending compared to already-established SMEs given that they may not be able to meet all bank requirements such as the provision of collateral and personal guarantees. The dependence of these enterprises on government support and Credit Union to finance the initial phase of business development was also a recurring theme from both respondents.

The second research question, which explores the experiences of established SMEs, findings from interviews with three (3) SMEs indicated that even though they encounter fewer difficulties in comparison to start-ups, they are mostly reliant on the use of internally generated revenue and will only approach the banks as a last option. They would be more confident in their ability to secure bank financing if and when they need it as they would have established banking relationships and often times, are able to meet banks’ requirements.

Regarding the question of banks role in providing support to SMEs in the region, two of the major banks in the region were interviewed and findings from these interviews indicated that the banks are of the opinion that they have put in place, a diverse range of credit packages and strategies to respond proactively to the needs of SMEs in the region.

In response to how the relationship between banks and small and medium enterprises in the Midlands of Ireland foster the growth of SMEs in the region, all the SMEs interviewed
suggested that this is a significant determinant in the success of bank loan applications. They however echoed the response from the banks which highlighted the fact that the overriding determinant of successful loan applications is the assessed viability of the business plan presented by a promoter.

6.10. Conclusions

Conclusions are drawn from findings in response to the research questions highlighted above. These will highlight inferences made from the research findings and present an overview of the challenges of SMEs in the Midlands of Ireland in accessing bank lending.

With the perception of start-up enterprises in the region indicating that they will encounter difficulties in accessing bank credit at the initial phase of their businesses, it was found that most new businesses will look internally to fund their ventures. The use of owner savings, funds from family and friends was discovered to be the preferred option at the start-up phase. The availability of government funded grants for new businesses was found to be the preferred option when seeking external financing by new businesses. This not only provides new entrepreneurs with part of the required funds, but also gives them the opportunity to work with experts who will help them in the development of practical and viable business plans which they can then present to the banks along with secured government funding if and when they require bank finance. The challenges of effective financial management was indicated as one of the reasons why a new entrepreneur will seek financing from the banks as this will ensure accountability and the development and implementation of good business practice which may not be a priority when using own funds to finance a business. Also highlighted is the role of Credit Union financing used by start-up enterprises. Even though the credit union does not provide lending for business purposes, findings from this study
suggests that personal loans are obtained from the credit union and used at the initial phase of business development.

Established SMEs in the region indicate confidence in accessing bank lending when required. This finding shows that the presence of transactional evidence and business reputation plays a significant role in accessing bank lending. Because of their phase in the business lifecycle, it can be inferred that the establishment of market presence and ability to generate profit is a factor that enhances this confidence. Having attained profitability and sustainability, established SMEs will consider bank loans when looking to expand and in some cases the injection of external financing for the purpose of working capital. They may also be seen as presenting a less risky business proposition to the banks as the application for bank credit by these businesses is mostly to ensure the expansion of an already successful business venture.

Banks recognise the important roles that SMEs play in the Midlands and to this end, indications are that they have local knowledge of businesses in the region and this can be inferred from the presence of dedicated teams of SMEs experts in the branches of banks operating in the region. The banks have developed different packages to cater to the needs of SMEs at different phases of development. It is however important to point out that despite the perception of the banks that they are doing enough to ease the access to bank lending for SMEs, this view is not shared by start-up enterprises. It may be inferred that established SMEs and banks in the region do have mutually beneficial relationship and this could be responsible for the positive perception that these SMEs have when considering their ease of access to bank credit.

Even though the banks stressed the significance of the business plan as the main determinant of successful loan applications, indication is that having creditor-debtor relationship does play a role in the loan application process. The banks depend on this relationship to acquire
credible information about the business, they have working knowledge of how the business operates, the market, the service or products and the market position of the business. Having this information about a business loan applicant significantly reduces turnaround time and thus it can be inferred that creditor-debtor relationship does to some extent impact on the success of loan application. The position of some established SMEs on this relationship indicates that having dealings with a single bank and establishing long term relationship with the bank ensures that they have access to bank support and incentives that they may not have, such as non-securitised lending, overdrafts and credible expert advice when developing future business strategies.

Banking regulations may be considered a major factor in the development of banking strategies in response to the financing of SMEs. However, it was concluded based on findings that banking regulations does not have significant impact on the willingness of banks in the region to lend to SMEs. It may be inferred that banks’ internal policies are designed to not only adhere to banking regulations, but in providing credit to SMEs, the banks do not unwittingly expose themselves to bad and toxic loans. This may be responsible for the challenges that some SMEs, especially newly established and younger SMEs, face in accessing bank lending. It may also be in recognition of this that the government is involved with providing funding support through various grant schemes to start-ups and younger SMEs in the region.

6.20. Recommendations

Banks and SMEs have different perceptions on the ease of access to bank lending it is recommended that banks should be more proactive in enlightening new businesses on the availability of suitable start-up packages. They may explore the option of dedicated websites that targets start-ups where the banks actually approach prospective business owners as
opposed to waiting to be approached by start-ups. There may also be a need for increased and improved partnership with government enterprises so as to have informed knowledge of the perception these businesses and possibly dispel some erroneous perception.

Based on findings, it is significant that prospective entrepreneurs establish banking relationship early enough as well as the need to work on developing effective and viable business plans so as to provide the basis upon which the bank can verify the financial management capability of the business owner and grant access to banking products that best suit their borrowing needs.

Due to the constraint and limitation of this study, it is recommended that a much more elaborate research with emphasis on a mixed methodology be carried out pooling participants from a wider range of businesses and exploring the accessibility of SMEs to bank lending based on different sectors. This may provide data on the sectors that are more likely to secure bank lending and present the basis for future research and investigations on findings of these studies.

It is important to explore the role and extent to which personal loans offered by credit unions form the basis of initial capital for the purpose of business start up. Given that most entrepreneurs make use of own funds or savings at this phase, the use of credit union financing may shed more light into the sources of external financing sought by SMEs and possibly provide more insights and incorporate lending from credit unions in future research into SMEs access to external debt financing.

It is recommended that further research on the challenges faced by SMEs in different regions of the country be conducted so that they form the basis for comparison of similarities or differences in the experiences of SMEs in the different regions of the country. As indicated by the Central Bank based on response to enquiries made for the purpose of this study, there
appears to be little previous research on the regional breakdown of SMEs financing. This, if done, may provide much more specific data not only for the purpose of developing strategies to address regional challenges but will give a clear view of areas that may require targeted stakeholders responses in improving access to bank lending by SMEs as well as providing credible data in this regard.
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Appendix 1

Topic: An Investigation into Small and Medium Enterprises Access to Bank Lending in the Midland of Ireland.

Dear -------------------------

My name is Clementina Mustapha and I am a Master’s of Business student at the Athlone Institute of Technology. As a requirement for the award of Masters in Business Studies, I am required to complete a thesis on a topic of my choice. I have therefore chosen a topic that is of great interest to me and bears significant impact on the growth of the Irish economy and this is the small and medium enterprises (SMEs) and their access to bank lending.

The aim of the research is to explore the challenges of small and medium enterprises in the midlands of Ireland and their accessibility to bank credits for the purpose of establishment, growth and sustainability.

Abstract

This study examines the characteristics of SMEs and how these influence the willingness of these enterprises to seek external funding from the banks. It explores the roles that banks play in advancing the growth potential of new and established SMEs and how creditor-debtor relationship affects bank lending in the Midlands of Ireland.

Research Participants

For the purpose of credibility, I will contact SMEs, banks, the central bank and other relevant stakeholders to seek permission to carry out interviews with designated personnel. Interviews will consist of 10 to 18 questions and are structured to provide answers to identified research questions. I will seek permission of participants to record the interview, if they do not want to consent to this, then I will take notes and request verification during the interview process.

Ethical Consideration

For the purpose of confidentiality, participants’ information will remain anonymous and no identifiable information or features will be used. Participants will be made aware of the fact that they can withdraw from the interview at any time if they so wish. Information provided by the participants will be destroyed on the 30th of September 2016, prior to this time, all data will be kept in a locked drawer in a secure location, accessible only to my project supervisor and I.

I will appreciate your contribution to this study. If you would like to participate in this research, please read and sign the consent form attached herein. For further details, you can contact me on -------------------------

Kind regards

Clementina Mustapha.
Appendix 2

Project Title: An Investigation into Bank Lending to Small and Medium Enterprises in the Midland of Ireland.

Written permission and consent form.

I am aware that this interview is for the purpose of academic research and I hereby give permission to Clementina Mustapha to interview ----------------------------------------------- who is a representative of ---------------------------------------------

Signed ----------------------------------------- Date --------------------------

Having read the introductory note presented by the interviewer, I consent to take part in this interview.

Do you give permission for use of voice recorder during the interview  Yes / No

Signed ----------------------------------------- Date --------------------------

(Company Representative)

Company Seal:
Appendix 3

Interview Questions: Small and Medium Enterprises (Micro, Start-up)

Thank you very much for taking the time to give this interview. As previously discussed, I would like to reiterate that the responses given here are strictly for the purpose of academic research purposes and unless expressly agreed by you your identity will not be disclosed.

Objective 1: Identify challenges faced by start-up enterprises in accessing credit facilities from banks

Can you please give a brief overview of your enterprise? Year established, product/service offered, number of employees, ownership type

1. Would you prefer the use of external sources of finance at the initial stage of your business and why.

2. Do you have a credit Union Account?

3. Did you apply and secure a credit Union loan to start you venture?

4. Did you borrow this against your CU savings?

5. How do you think bank lending will impact on the development and growth of your business?

6. Do you think it is easy for new businesses to access bank loan?

7. If yes or no, can you please elaborate?

8. Do you currently use any form of external financing for your business operations or development?

   - If Yes – Where do you get your financing? Bank/ CU/ Other

   - If not a bank, have you ever applied for a bank loan?

   - Do you need external financing and can you please explain how this will help your business?

   - If you do not need external funding, how do you currently finance your business operations?

Objective 5: Explore ways that relationships between banks and small and medium enterprises in the midlands of Ireland fostered the growth and establishment of new SMEs in the region.
9. Do you have banking relationship with one or more banks and what is your relationship with your bank? (Accessible officials, helpful, understand your business needs, etc.).

10. Do you have a specific contact at your bank?

11. What areas of your business operations do you specifically seek external injection of funding? Bank or other sources (Start-up, Expansion, working capital, infrastructures/equipment, to maintain your current market position, etc.).

12. If you avail of bank loans, what are the terms of your credit (interest rates, repayment schedule, collateral requirement/loan guarantee, loan protection insurance etc.)?

13. Have you ever been denied a bank loan since you commenced your business?

   If yes, were you given reasons for your application refusal – insufficient cash flow, being a start-up business with no track record, insufficient information on business activities, insufficient collateral, Bank’s internal policy etc.?

   If no, what accounted for the success of your application- Business model, product/service industry, track record, relationship with the local bank etc.?

14. Did the bank give you alternative arrangement or actions that you need to take for your loan application to be approved- minimum conditions to be met for approval etc.?

15. If your loan was approved, was the approved amount the full amount applied for?

16. Can you give an estimate percentage of applied amounts approved? -----%

Did the loan amount and conditions meet your business needs? (Peculiar business needs – business turnover, supply chain management, lease payment, research and development, innovation financing and other relevant factors that may affect your ease of repayment).

17. Was the repayment schedule appropriate for your business needs – e.g. was overdraft period of 1 year sufficient to repay a loan to finance equipment or machineries?

18. Did the bank give you options for payment restructuring and do these satisfy your business needs?

Thank you for your time and if I do need further clarification, is it okay to contact you by telephone?
Appendix 4

Interview Questions: Established SMEs (Small and medium)

Thank you very much for taking the time to give this interview. As previously discussed, I would like to reiterate that the responses given here are strictly for the purpose of academic research purposes and unless expressly agreed by you your identity will not be disclosed.

Objective 2: To explore the opinion of existing small and medium enterprises in the Midlands on the level of financial support from banks for business expansion.

Can you please give a brief overview of your enterprise? Year established, product/services offered, number of employees, ownership type.

1. Would you have preferred the use of external sources of finance at the initial stage of your business?
2. Why?
3. Do you currently use any form of external financing for your business operations or development?
   i. If Yes – Where do you get your financing?
   ii. If No – will you need external financing for any specific business development strategy?
   iii. If you do not need external funding, how do you finance your business operations?
4. What areas of your business operations do you specifically seek external injection of funding? (New Product development, Expansion, working capital, infrastructures/equipment, to maintain your current market position, etc.).
5. If you have or have had bank loans, were you required to provide guarantee and were the terms suitable for your business needs? (Interest rates, repayment schedule, collateral requirement/ loan guarantee, loan protection insurance etc.)?
6. Have you ever been denied a bank loan in the last 3 years?
7. If yes, were you given reasons for your application refusal – insufficient cash flow, being a start-up business with no track record, insufficient information on business activities, insufficient collateral etc.?
8. If no, what accounted for the success of your application- Business model, product/service industry, track record, relationship with the local bank etc.?
9. Did the bank give you alternative arrangement or actions that you need to take for your loan application to be approved- minimum conditions to be met for approval etc.
10. If your loan was approved, was the approved amount sufficient for your business need? (Peculiar business needs – business turnover, supply chain management, lease payment, research and development, innovation financing and other relevant factors that may affect your ease of repayment).

Objective 5: Explore ways that relationships between banks and small and medium enterprises in the midlands of Ireland fostered the growth and establishment of new SMEs in the region.

11. Was the repayment schedule appropriate for your business needs – e.g. was overdraft period of 1 year sufficient to repay a loan to finance equipment or machineries?

12. Do you think that banks in the Midlands are more willing to lend to businesses like yours that are already well established?

13. If yes to Q12, do you think that the possible growth or expansion potential of your business is a significant factor in accessing bank credit and why? (Stages of development may determine funding requirements).

14. Do you think the product or service you provide plays a significant role in the outcome of your loan application? (consider industry, consumer demand and general economic outlook)

15. What reasons will you give for your response to Q14?

16. Do or did you have banking relationship with one or more banks and what is your relationship with your bank?

17. Do or did you have a specific contact in the bank(s)?

18. Did this make it easier for you to access bank support in terms of overdrafts, loans and other financial services?

Thank you for your time and if I do need further clarification, is it okay to contact you?
Appendix 5

Government Agency

Good day --------------,

Thank you for your participation in this research project.

The purpose of this interview is to ascertain issues of bank lending to SMEs in the Midlands and the factors that influence SMEs willingness and ability to avail of bank credits.

Position of respondent: ----------------------------------------

Presence and activities in the Midlands

1. Can you please elaborate on the level of SME participation in your organisation and the types of support you provide to them?
2. What is the rate of growth of start-up enterprises in the region?
3. Can you give an overview of the composition of SMEs in the Midlands?
4. Do you think that new SMEs have a favourable perception on their ability to secure bank loans for their start-up enterprises?
5. Why and what do you think informs their perceptions

Objective 1: Identify challenges faced by start-up enterprises in accessing credit facilities from banks

6. What in your opinion are the major financial challenges encountered by start-ups in the midlands?
7. What in your experience would be the most likely source of finance for start-up enterprises in the region?
8. What types of start-up businesses are most likely to apply for bank loans?
10. Would they be willing to approach the banks?
    If no to 10, what are the reasons for their unwillingness to seek bank credit?
    If yes to 10, what are the factors that determine the start-up willingness to apply for bank loan?

Objective 5: Explore ways that relationships between banks and small and medium enterprises in the midlands of Ireland fostered the growth and establishment of new SMEs in the region
11. Do you think that start-up enterprises in the region are aware of, and understand bank lending procedure and conditions?

12. If they do, could this encourage and limit the possibilities of unsuccessful loan applications?

13. Does the agency engage with banks in the areas to encourage lending to start-ups?

If yes, has this had positive response from all stakeholders?

If no, what are the reasons for not creating a platform for banks and start-up to engage and establish a basis for future business relationships?

Thank you very much for your contribution to the study.
Appendix 6

Banks

Good day -----------------

The purpose of this interview is to ascertain issues of bank lending to SMEs and the factors that influence your willingness and ability to offer credit to SMEs.

Background information of the bank

Position of respondent: -----------------------------------------------

Background details:

➢ Bank coverage of the midlands
➢ Number of Start-up financed by the bank in the midlands in the last 3 years and the percentage increase to date.
➢ Average rate of loan decline to start-ups – most prevalent reasons for decline
➢ Average rate of loan approval for start-up SMEs
➢ Average application turnaround time for start-up SMEs

Objective 3: The position of banks on their level of lending to start up enterprises and in the region.

 o A. What if any do you think motivates start-ups to seek external finance.
   B. Would they be willing to approach the banks?

 o Do you find that most start-ups, requiring external funding use personal loans from credit unions to get their business running before approaching the banks?
   B. Would they be willing to approach the banks?

If no, what are the reasons for their unwillingness to seek bank credit?

If yes, what are the factors that determine the start-up willingness to apply for bank loan (product/service viability, scalability, IT oriented, past experience of owner, relationship with local bank etc.)?

 o Do you think that start-up enterprises in the region are aware of, and understand bank lending procedure and conditions?

 • But do they understand the procedures and requirements?
If they do, could this encourage and limit the possibilities of unsuccessful loan applications?

**Objective 4: To examine level of bank credit offered to established small and medium enterprises with growth potential.**

- Number of established SMEs financed by the bank in the last 3 years in the midlands and the percentage growth rate of loan portfolio to this segment
- Average rate of successful applications – factors that determine successful applications (growth potential, Industry – IT, manufacturing, retail etc.)
- Repayment schedule and other conditions – do bank conditions meet the business needs of SMEs and how flexible is the bank is adapting to the needs of SMEs (Loan restructuring etc.)?
- What do you think accounts for the increase or decline in the rate of existing SMEs application for bank credit – Upsurge in consumer demands based on positive economic outlook? Discouraged borrowers (perceptions of rejections and the impact on credit rating etc.)
- What actions if any, are being taken by the bank to encourage the sustained increased borrowing by established SMEs in the region to seek credits from your bank.
- Are there specific areas of business operation or activities that the bank will be more amenable to financing? If there are what are the reasons for focusing on these areas?

**Objective 5: Explore ways that relationships between banks and small and medium enterprises in the midlands of Ireland fostered the growth and establishment of new SMEs in the region.**

- In what way if any does creditor-debtor relationship impact on the success rate of loan applications?
- Do you think that SMEs who have good and long term relationship with your bank stand a better chance of getting a greater percentage of loans approved?
- Does this relationship have any impact on the use of collateral or personal guarantee for long-term clients or larger/older businesses?
- If creditor-debtor relationship does not have significant impact on application success rates, could this be attributed to the bank’s internal structure? Is decision making centralised or decentralised- localised decision making would imply that the Branch is able to approve loans based on local knowledge and relationship with local businesses.
Objective 7: the impact of banking regulations on the ability of banks to meet the needs of existing SMEs

- To what extent have government strategies and regulations facilitated or hindered bank’s willingness and ability to lend to existing SMEs?

Thank you for your time and if I do need further clarification, is it okay if I contact you?
Appendix 7
Response from the Central Bank of Ireland

30/05/2016

Dear Clementina,

Thank you for your request to the Central Bank of Ireland. As you know I have tried to secure an interviewee for you, unfortunately I have not had much luck as it appears we have little previous research on the regional breakdown of SME finance. The one exception is from the SME Market Report pg. 11 and I have been asked to direct you to this report.

Sorry I cannot be of any further help, or set up and interview for you. Best of luck with your research.

Yours sincerely,

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03/05/2016

Dear Clementina,

Thank you for your email which I wish to acknowledge, I have passed this on to my colleagues involved in economic and banking analysis and will revert with an answer when I hear back from them,

Kind regards,

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26/04/2016

Dear Clementina,

Thank you for your email and apologies for the delay in responding to you.

I have not been unable to confirm an interviewee for you.

Perhaps you could email the questions you wish to pose to the Central Bank – I will see if I can find some answers for you

Kind regards,

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31/03/2016
Clementina Mustapha

Thank you for your email to the Central Bank of Ireland. The Public Contacts Unit will review your email and provide you with a response as soon as possible.

31/03/2016

Initial email to the central bank of Ireland

Hi,

My name is ---------------- and I am an MBS student in the Athlone Institute of Technology.

As a requirement for the award of MBS qualification, I am required to conduct a research on a topic of my choice. I have chosen to carry out an investigation into bank lending to Small and Medium Enterprises (SMEs) in the midlands of Ireland.

Part of my research methodology includes conducting interviews with relevant stakeholders and as a regulatory authority; the central bank of Ireland may be considered a key contributor in this study. I will appreciate if you could get back to me to set up a suitable date to conduct an interview with the relevant official.

I have here attached a copy of permission and consent form for your consideration. If required

Your positive response and contributions will be very much appreciated in this research.

Kind Regards

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