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DO LENGTH, TRUST OR CONCENTRATION MATTER IN CREDIT RENEWAL? THE CASE OF SMES IN ROMANIA

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ABSTRACT

Small and medium enterprises (SMEs) are recognized for their important role in economic development, but this recognition does not resolve the essential problems of the SME sector. Among the problems faced by SMEs are the insufficient or inadequate funding, the lack of availability of financial institutions or private equity investors to meet SMEs financing requirements. As some recent studies revealed, the access to sufficient and appropriate funding for SMEs is still an essential issue even for EU countries, the access being limited by various demand and supply constraints and imperfections. This paper approaches the issue of SMEs financing by investigating the main factors influencing the quality of the banking relationship. We undertook an extended survey-based research, on Romanian SMEs, as to analyse the main determinants of bank relationship, i.e. trust, loyalty, length. Based on a multiple linear regression and using the method of ordinary least squares, we found that SMEs benefit from more favourable treatment from banks due to trust in the managers/owners of the companies and to the effects of long-term relationships. The results we obtained are in line with other similar researches but also as a critical interpretation of the role and objectives of the banks related to SMEs perspective and expectations.

JEL CLASSIFICATION & KEYWORDS

■ G21 ■ G32 ■ SMEs ■ LENDING RELATIONSHIP ■ CREDIT RENEWAL ■ BANKS' BEHAVIOR

INTRODUCTION

SMEs are important for all economies and, particularly, for developing economies, contributing to improving major issues affecting economy, such as: employment, a more balanced distribution of revenues, collecting taxes for state or local budgets. Also, SMEs have significant contribution to economic development and innovation. However, SMEs cannot survive and develop without reasonable access to financing sources. SMEs financing becomes, both from theoretical and practical view, a matter of first importance, but the way banks and SMEs deal with this relationship, seeking for the best financing model, is still a controversial topic. The aim of this paper is to investigate the specific features of SMEs in the contemporary economy (particularly the way SMEs come to financing), trying to answer to what extent the bank lending is adapted and adequate for the needs of small businesses. Identifying the key elements defining the SMEs' relationship lending will give us the possibility to confirm/verify the literature findings through the results of our own survey-based research. The survey we carried out on a significant number of SMEs from Bihor county, Romania, was focused on investigating the way that factors such as concentration, length, credit lines, age, size, or solvability determine or at least influence the bank`s availability to renew the credit on maturity.

The paper is organised as follows: in the first part we briefly analyze the financing needs of European SMEs and the various constraints limiting the access to financing, in the second part we review the literature on the main determinants of SMEs relationship banking, in the third part we present the research methodology, in the fourth part the discussion and findings, and, finally, we conclude.

Overview on the financing needs of European SMEs

SMEs development is a matter of first importance in terms of contribution to economic growth, employment and innovation, but the chances of these firms to survive and grow are conditioned by various difficulties and constraints; among them, the access to finance seems to be omnipresent. However, the extent to which effective relationships with funding providers (primarily banks) can help alleviate these constraints, the role of the relations between banks and SMEs customers as enhancer of the access to funding, is still a controversial topic. According to 2011 SMEs Access to Finance Survey (European Commission. Enterprise and Industry, 2011), the access to finance of European SMEs is mentioned as the second most pressing issue for the firms, with 15% responses (approximately equal with competition), after finding customer and just ahead of the availability of experienced or skilled staff (14%). Remarkable is the constancy of this second rank both on 2009 and 2011 surveys, and also the significant variation among EU economies, which is, no doubt, a direct or residual consequence of the economic crisis. The crisis further emphasized the need for external support, driving SMEs critically dependent on external sources of finance; the share of firms using only external financing had doubled (from 27% to 56%) in the last two years. The most widely used external funds were bank overdrafts and bank loans (40%, respectively 30%). SMEs' managers were clearly more pessimistic about the general economic outlook. They consider that the performance of their firms (in terms of sales and profitability) was deteriorated, which hinders their access to financing. Another factor influencing the availability of bank financing is SMEs credit history; managers are also quite prudent, and the slight improvement over previous years gives not large hopes regarding relatively stringent bank's requirements. SMEs' managers who would prefer a bank loan (63% from total) to achieve their growth ambitions stated that insufficient collateral and the high interest rates would be the main limiting factors hindering them from receiving financing (23%, respectively 22%) and bank services were not always tailored to their needs. As a conclusion, SMEs continue to face problematic access to finance during the crisis.

Which are the explanations for the insufficient or inappropriate funding? Most of the researchers consider the insufficient funding for SMEs as a structural feature, often unavoidable, which must be mitigated by measures going beyond the framework of the market, often through state

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intervention: government lending programs, grants, guarantees or other favourable fiscal measures (Beck, Demirguc-Kunt, & Maksimovic, 2005), (de la Torre, Martínez Pería, & Schmukler, 2010). One explanation may derive from the fact that SMEs are incorrectly considered as a ”reduced” version of large businesses, so they are often analyzed and financed using methods and techniques considered for large companies financing (Cressy & Olofsson, 1997). The problems of inadequate funding of SMEs may come also from supply side issues, particularly related to the way financial institutions work (Beck, Demirgüç-Kunt, & Soledad Martinez Peria, 2010), and the invoked arguments are: the impossibility of building a viable image on repayment capacity, the moral hazard (Berger & Udell, 1998), (Berger & Udell, 2005), banking relationship without history, the precarious financial situation, less professionally prepared, insufficient collateral (OECD, 2004).

Financing difficulties can be explained by firm positioning on business growth cycle, when the lack or the mismatch of existing funding with company's requirements is perceived as another main obstacle to SMEs growth. Ayadi considers that the hausbank model – as that found in countries like Austria, Denmark or Germany – could mitigate some constraints in SMEs financing: “enterprises have traditionally relied on a close relationship with one local bank (the Hausbank), which covers relatively small credit amounts […] and is willing to lend even when business conditions are difficult” (Ayadi, 2009, p.66), however, this feature is not generally true across Europe; for example, only one third of the SMEs in Spain or Greece gets its funding from one single bank.

According to Brown et al. (2012), Eastern European firms, compared to their counterparts in Western Europe, encounter the same needs for loans in their current or investment activities, but it is considerably less likely to use them effectively, as they are discouraged in applying for a loan or due to difficulties meeting the bank's requirements: high interest rates, collateral, rigid procedures in analysis and lending. These restrictions fully operate for small enterprise with opaque financial statements and business reports, and these restrictions (or “requirements”, in terms of supply side) seem to be better implemented in economies where the foreign banks sector is strongly represented. However, the rate of rejection of loan applications for Eastern Europe companies is not much higher than for Western Europe case (i.e. in the sample analyzed: 8% for Eastern Europe companies versus 5% for Western Europe companies). A good bank relationship history, previous loans repaid in due time, may improve chances of future loans, reducing, in the same time, the rate of "discouraged" ab initio.

According to the above mentioned authors, a better distribution of government financial support by avoiding financial markets congestion (public or private) can improve access to finance for some SMEs categories (i.e. exporting small firms) that really need it. Moreover, a real transparency in financial institutions activity can contribute to removing the stereotypes considering foreign banks are more inflexible and would value mainly "hard information" (financial statements, Credit Bureau reports) and less "soft" ones (i.e. credit relationship), as stated by Berger & Udell (2005) or de la Torre, Martínez Pería, & Schmukler (2010).

Summarizing, SMEs cannot meet the banks' requirements, and they are a priori considered to be riskier than large enterprise, and this is to justify the banks' requirements for additional protection and guarantees, as collateral, higher interest rates, covenants etc.

Literature on the main determinants of SMEs relationship lending

The quality and efficiency of a lending relationship is described through several descriptors, such as the possibility to renew credit lines at maturity, to obtain favourable conditions inside the banking relationship (fees, covenants, and flexibility), a reasonable collateral etc. All these last elements (credit renewal, favorable conditions and reasonable collateral) act as dependent variables (effects) of the indicators of the banking relationship, as mentioned in the empirical literature, namely: the number of lending relations, the length of the bank-borrower relationship, the degree of concentration, the share of debt financed by one single bank, the extent of participation in the relationship, and so on.

We will now briefly approach these indicators, one by one. The most important effects of concentrated relationships seem to be related to credit costs and the opportunity to get financing, even in difficult situations. Concentration of relationship denotes, at a first glance, getting together the client's financial activities in a single bank or in a maximum of two banks (one of them recording a strong majority of the client operations), but in terms of lending relationship, that means a significant share that a financial lender registers in total financial debt of a borrower. Concentrated relationship lowers borrowing costs (Petersen & Rajan, 1994), (Petersen & Rajan, 1995), and (Hernandez-Canovas & Martınez-Solano, 2006). Moreover, concentrated relationship enhances credit availability (Angelini, Di Salvo, & Ferri, 1998) and (Elsas, 2005). Granting a preferred lender position may lower borrowing costs as a mitigation of free-rider problem: proprietary information is disclosed only to that bank. In other terms, the option of a firm to accept the dominance of a creditor in all its financial commitments gives a sound signal of quality and safety of its business, reduces uncertainty, and finally lowers the loan costs.

However, the argument seems relatively weak; finally these "confident" customer's will end as "captured" bank customers and this situation can provide a stronger position for the bank in bilateral negotiations and increase information asymmetry regarding other bank competitors. Based on this monopoly power, the bank will try to increase loan costs. Thus, we find other opinions considering that the number of bank relationships does not influence the degree of financial constraints that the firm faces. Accepting that concentrated relationships reduce liquidity constraints, Fuss and Vermeulen (2006) argued that the possibility that firms can be supported by banks in case of liquidity shocks depends very little on the number of relationships, but more on firm size and the degree of indebtedness. Degryse and Van Cayseele (2000) consider that improved bank customer relationship (including lowering costs) is based not only on the concentration, but especially on the widening relationship, i.e. when the company buys supplementary and different products and services from the same bank.

Regarding the length of a banking relationship, the starting idea is that duration indicates the intensity of relationship banking over time, but in the same time duration leads to accumulating a private information over time, and the capture of the borrower (switching costs and hold up problem) should increase with duration.

Authors supporting the idea of decreasing financing cost with the length of lending relationship, consider it as being related to the information production of the lender. Based on regularly monitoring of their borrowers, lenders accumulate information over time; so, for granting new loans to existing customers, the lender will register lower costs per customer (or per loan). Of course, these cost savings will be beneficial for borrower, if the bank decides to share it with the client (Boot & Thakor, 1994), and the bank will do that if there are competitive offers on the market. Otherwise, the borrower will have no benefit from this duration of relationship. Boot asserts that contract terms improve over the length of the relationship with interest rates and collateral requirements falling, and states that "relationship banking lubricates value-enhancing exchange of information and that the longer the duration of the relationship, the greater the information exchange" (Boot, 2000, p.20). Berger and Udell (1995) find that the interest rate and collateral required for credit lines is decreasing with the length of a firm's relationship with its bank. However, in Europe, unlike U.S., companies have not reported benefits from long lasting relations with the bank, pointing out even a direct correlation between the interest rate on credit and the bank-firm relationship duration, or the hold-up phenomenon of banks to their customers through long term loans (Degryse & Van Cayseele, 2000), (Angelini, Di Salvo, & Ferri, 1998). Even the credit availability increases for the firms with longer bank relationships, there is no certitude for a better loan interest (Petersen & Rajan, 1994). An advantage for close or lasting relationships with the bank could be the lender involvement in company's difficult situations during times of adverse liquidity shocks. It is difficult, however, to consider the length as a proxy for a more stable relationship lending in the future: "the likelihood of ending a bank relationship is not influenced by the duration of the relationship" (Ongena & Smith, 1997, p.16). They found statistical correlation rather between the duration of bank relationship and the firm size: i.e. large firms with low debts tend to keep a relationship with the bank more than the leveraged small firms. Including the trust beside these two descriptors above mentioned, Hernandez-Canovas and Martinez-Solano assert that European firms intending to reduce the number of bank relationships or to increase their duration, would confer a monopoly power for the bank, leading to higher interest rates. They agreed that the existence of relationship lending does not depend on the duration of the relationship or the existence of other lenders financing the firm, "but rather on the bank's participation in the firm's financing, on its capacity to generate information, and on its commitment to aid the firm when it experiences financial difficulties" (Hernandez-Canovas and Martinez-Solano, 2010, p.467).

In terms of age, size, performance, we can state that firm's age provides, simultaneously, several indications of performance continuity and survival skills, but also age acts as a proxy for flexibility and efficiency of management (i.e. firms having achieved a certain age and size are more likely to end in rigidity and bureaucracy). Typically, many studies have focused on correlating age, size and financial performance with the quality of banking relationship. We can state that improved lending access is more critical for firms in the first stages of lifecycle (start-up) than for those in the growth and consolidation stages: "firm size is positively correlated with firm age, such a correlation between firm size and borrowing cost implies a negative association between firm age and borrowing cost" (Sakai, Uesugi, & Watanabe, 2005, p.14). The age of borrower is, however, a mediocre determinant for credit decision; in fact, lenders try to obtain valuable information on the quality of the borrower especially from their relationships, and not necessarily from borrower age. Moreover, during a crisis, the banks will diminish the importance of historical data on the borrower, "because what is most important for decision-making is the most current information rather than the number of years over which it was collected" (Monferrà & Sampagnaro, 2011, p.13).

In terms of size, it is assumed that a significant firm size is explicable through well-established internal structures and processes, a solid experience and a good market position, stable cash flows that can cope with debt service. The age and the size act as suggestive indicators of firm's behaviour in difficult situations (i.e. a low informational asymmetry) for the lender. "Banks clearly lend more to larger, more profitable firms […], a 10 per cent increase in asset size (firm size) leads to a seven per cent increase in the size of lines of credit and an eight per cent increase in term loan size" (Strahan, 1999, p.19).

Finally, referring to the firm performance, the best use of financial results can be found in bilateral relations, when the concentration is high: disclosing proprietary information to lenders, the sound financial performance of the borrowers is higher valuated by a single lender. If the quality of projects and financial performance of borrowers is variable in time, these borrowers tend to add more banking relationships, in order to meet their financial needs.

As a partial conclusion for cited literature, we can notice that in most European countries, a small number of bank relationships and a long term company-bank relation could provide to SMEs certain advantages, but often banks can exercise certain power, in particular by charging higher interest payments. In the same time, reducing the intensity of the relationship by searching for other options of financing may lead to loans at more advantageous prices, but narrows the chances of other alternatives.

Thus, the (qualitative) element that replenishes the above mentioned determinants of banking relationship is trust, whose presence (or absence) defines the profile of this relationship in the business environment. According to Elsas and Krahnen (1998) quoted by Hernandez-Canovas and Martinez-Solano (2010), the existence of an authentic lending relationship is not dependent on the length or the number of bank relationships, "a relationship based on trust is a better strategy to improve SME access to finance than establishment of longer or more concentrated relationships" (Hernandez-Canovas & Martınez-Solano, 2010, p.467).

Data and methodology

In this section we present the data set and the methodology we have used in the empirical analysis to assess the effect of lending relationships on the availability and terms of SMEs financing. In order to investigate the influence of banking relationship on bank availability to grant loans to SMEs, we carried out a survey-based research. This research is part of a wider project investigating some relevant issues on the relationship between SMEs and banks, such as: the role of the main determinants of the banking relationship, the use of credit products, the type of bank (domestic, foreign, large, small, local etc.) serving in the best way the SMEs' interests etc. Data collection was focused on gathering information mainly from SMEs in Bihor county, Romania and its main city, Oradea. The survey, partially inspired and following the methodology used by Hernandez-Canovas and Martınez-Solano (2010), was carried out during March-May 2011 and observed the following rules and objectives:

- prior to the data collection itself, the potential portfolio was selected and verified on the web page of the Romanian Ministry of Public Finance (2011), in order to:

- remove, ex ante, the firms with no activity, or without reported financial statements, suspended etc.;
- check the potential firms in terms of SMEs definition (turnover less than 50 million Euros and up to 250 employees);
- remove the companies operating in financial intermediation (mutual funds and other financial entities, financial leasing, other lending activities, insurance and reinsurance, pension funds, insurance agents and brokers, exchange houses etc.), and, as far as possible, the firms belonging to groups that, if consolidated, may exceed SMEs threshold on number of employees/turnover etc.;

- the web page of the Ministry of Public Finance also served to gather data such as age of the company, last turnover (2010), the profit (2010), the average number of employees;
- the questionnaires were addressed to the executive manager of the company (SME).

As a result of the survey, the primary dataset covered 611 companies. After removing the questionnaires with errors, the resulted valid sample consisted of 595 firms (a statistical error of 2.62% and a confidence level of 95%).

Given that almost all data (95%) were collected from Bihor county, we checked the issue of their representativeness. First we found there is no special feature, different economic law or regulation for this area, or special behaviors or practices from the banks and government agencies part relating to SMEs, compared to other regions of Romania, or anything else that could influence the representativeness of the results. Moreover, based on the National Bank of Romania (2010) and main commercial banks data, we found a regular and normal position of the region (compared to the national average) for a series of bank indicators, such as: number of bank units, number of inhabitants per bank branch, volume of loans (in local currency – RON – and foreign currency) granted to companies, the volume of deposits, current accounts etc. Thus, in terms of number of branches, the above mentioned data for year 2010 indicates for whole country an approximate total number of 5,700 bank units, i.e. a banking density of 25.5 units on average per 100,000 inhabitants. For Bihor county we found 143 bank units (2.49% of the total banking establishments in Romania) and a banking density of 22.52 units per 100,000 inhabitants (National Bank of Romania, 2010), i.e. a position close to the national average. For the main bank indicators (loans, deposits) we can also notice a position close to the national average (excluding the capital Bucharest). The only exception regards the loans granted in foreign currency, where the figures for Bihor county are over 2.5 times higher than the national average (also excluding the capital Bucharest).

Discussion and findings

Based on this empirical research conducted among SMEs, we have analyzed the main determinants of the banking relationship and tested the effect of both general characteristics (i.e. age, size/turnover, solvency, financial leverage), and specific financial indicators concerning lending (i.e. lines of credit) and relational (i.e. trust, concentration, length) characteristics of the firm on the renewal/extension of loan at maturity (variable name: Renewal). Our investigation is focused on the banks` availability to meet companies` requests for loan renewal. Specifically, SMEs` managers were asked to rate on a scale from 1 (never) to 5 (always) the following statement: "Bank showed high availability to credit requests from our company or to renew/extend our loan at maturity". From the registered responses, we define the dummy variable Renewal, which takes value 1 when the response exceeds median and 0 otherwise. The effect of the bank relationship on Renewal is analysed through the following Model (1):

$$Renewal_i = ß_0 + ß_1\ Trust + ß_2\ Concentration + ß_3\ Length + ß_4\ Size + ß_5\ Age + ß_6\ Solvency + ß_7\ Financial\ leverage + ß_8\ Lines\ of\ credit + \varepsilon_i$$

The relationship between firm and bank is identified by the existence of length, i.e. the relationship is determined by the duration of the longest relationship a firm has with its bank (number of years since the firm has worked with its “oldest“ bank). Together with Length, we include Concentration and Trust, variables most used in the literature to analyse the existence and strength of the bank relationship. Variable Length is measured by the natural logarithm of the duration of the longest relation with a bank (the number of years since the firm has worked with its “oldest“ bank). Variable Concentration is defined as the natural logarithm of 1 plus the number of banks wherewith the firm works. Trust is measured ranking on a five-point scale, from 1 (strongly disagree) to 5 (strongly agree), the opinion of SMEs` managers on the following statement: "When granting a loan to an SME, trust in company’s managers is the most important argument for the bank". From the responses, we define the dummy variable Trust, taking value 1 when the response exceeds median and 0 otherwise. We measure the variable Lines of Credit based on SMEs` managers answers indicating, on a scale from 1 (never) to 5 (always), the frequency of using lines of credit to finance their company's activity (Hernandez-Canovas & Martınez-Solano, 2010, pg.468-470).

We also have included four other dummy variables – age, solvency, size and financial leverage. The first dummy variable is Age, which is determined as dummy variable indicating whether the firm has operated since less than 2 years, for 2-6 years, for 7-10 years, or for more than 10 years, these categories corresponding with banks procedures and practices, as a signal concerning credit risk (Lehman and Neuberger, 2000). The second dummy variable is Solvency – determined as ratio between cash flow and total assets. The third variable – Size – is determined based on net turnover. Finally, we included the Financial leverage, determined as ratio between total debts and total assets. Table 1 summarizes the explanation of variables and Table 2 summarizes the regressions` results.

Regression (1) in Table 2 contains the estimation by ordinary least squared method of the Model (1). Firms using more frequently lines of credit renew their short-term loans or credit lines more easily. On the contrary, renewal is less "automatic" for SMEs with higher solvency, which might indicate their reduced use of short-term debt. We find a positive and significant coefficient for the variables Trust, at 5% level, and Length, at 1% level. It should also be noted that the sign of the coefficient for the variable Concentration is negative and insignificant, indicating that firms working with more banks do not benefit of a higher availability of the banks regarding their credit requests (or for renewal of existing credit).

Regarding the characteristics of the firm we can notice that age and size exert no impact on renewal. Besides this fact, the results contradict Harhoff and Körting (1998) who found – by applying a probit regression – that firm’s age significantly affects credit availability (renewal), while the duration of the lending relationship is irrelevant. Within the

Table 1: Definition and explanation of variables	
Variable	Explanation of variables
Endogenous variables	
Renewal	On a scale from 1 (never) to 5 (always), we denote the opinion of SMEs` managers on the following statement: "Bank showed high availability to credit requests from our company or to renew/extend our loan at maturity". Dummy variable Renewal takes value 1 when response exceeds median and 0 otherwise.
Exogenous variables	
Firm characteristics	
Age	Dummy variable indicating whether the firm operates since less than 2 years, for 2-6 years, for 7-10 years or for more than 10 years
Size	Ln (Net turnover)
Solvency	(Cash flows)/(Total assets)
Financial leverage	(Total debts / Total assets)
Relationship characteristics	
Concentration	Ln (1 + number of banks with which firm works)
Length	Ln (Number of years of the longest banking relation)
Trust	On a scale from 1 (totally disagree) to 5 (totally agree), we denote manager's opinion on the following statement: "When granting a loan to an SME, trust in company's managers is the most important argument for the bank". Dummy variable Trust takes value 1 when response exceeds median and 0 otherwise
Lending characteristics	
Lines of credit	On a scale from 1 (never) to 5 (always), SMEs managers indicate the frequency of using lines of credit by the firm
Source: Harhoff and Körting (1998), Hernandez-Canovas and Martinez-Solano (2010), Lehman and Neuberger (2000)	

Table 2: Effect of trust, concentration and duration of bank relationship on debt availability (Renewal)		
	Renewal	Renewal
	OLS (1)	OLS (2)
Constant	-0.017650 (-0.150930)	-0.007951 (-0.070499)
Relationship characteristics		
Concentration	-0.022025 (-0.359134)	
Length	0.085484 (2.814085)***	0.081311 (2.699237)***
Trust	0.055816 (1.763435)**	
Firm characteristics		
Age: < 2 years	-0.031638 (-0.171312)	-0.018773 (-0.101831)
2 – 6 years	0.009174 (0.949033)	
7 -10 years	0.003278 (0.585651)	0.003199 (0.571752)
> 10 years	0.003642 (0.607105)	0.003655 (0.610269)
Size	-0.004779 -0.532472)	-0.004204 (-0.474926)
Solvency	-0.018336 (-1.695768)**	
Leverage	0.000378 (0.733290)	0.000378 (0.000378)
Financing characteristics		
	0.112672 (7.285476)***	0.114345 (7.533960)***
Observations	**527**	**527**
Adjusted R-squared	**0.126480**	**0.123257**
Prob (F-statistic)	**0**	**0**
The dependent variable in all regressions is dummy variable Renewal. All regressions estimated using ordinary least squares. Description of all variables reported in Table 1. Observations denote the number of cases included in estimation. Adjusted R^2 is the adjusted coefficient of determination (measures goodness of fit of linear model). T-statistic in parentheses.		
*, **, *** Significant at the 10%, 5%, 1% level		
Source: Harhoff and Körting (1998), Hernandez-Canovas and Martinez-Solano (2010)		

current framework this finding applies to all firm characteristics, unless the case of solvency. A significant negative impact can only be associated with young relationships: in our case, the companies operating for less than two years.

The longer the relationship between the bank and the firm, the more likely it is that the credit lines will be automatically renewed on maturity. A bank is more likely to renew financing granted to firms with which it maintains a relationship based on trust. This result is consistent with the evidence reported by Hernandez-Canovas and Martinez-Solano (2010), and also with the findings of Lehman and Neuberger (2001). The probability of renewing the credit lines increases by 0.55% when the variable Trust increases by 10%, whereas an increase by 10% in the variable Length increases the probability of renewal by 0.85%. Subsequently, we can state that the impact of Length on debt availability is higher than the impact of Trust.

Starting from Model (1) we can now estimate a new model by omitting the variables Trust and Concentration, in order to check the robustness of the results. According to the above mentioned work of Harhoff and Körting (1998), the information captured by these two variables (Trust and Concentration) may not be orthogonal to Length, which would distort the estimation and invalidate the model. The results remain qualitatively the same after excluding Trust and Concentration in Regression (2), as shown in Table 2. Thus, the effect of length on debt availability (Renewal) appears to depend more on other variables than competition from other banks (Concentration) or the trust that financial institution have in the firm's managers (Trust).

Conclusion

The SMEs' access to finance is often limited by the imperfections and constraints from supply and demand sides, covenants and excessive requirements, information asymmetry or special banking strategy. Under these conditions, maximizing the value of real relationship banking and the features enhancing mutual benefits seem to be essential. To confirm the validity of this assertion, we carried out a survey on consistent number of Romanian SMEs, investigating the relationship banking descriptors, such as trust, length, concentration, age, size and financial performance. We found that the availability of bank to grant loans or to renew/extend credit lines at maturity (for existing clients) significantly depends mainly on the length of the banking relationship and also on the trust between the lender and the SME. Also, we found there is no significant influence of the number of bank relations (concentration) on the availability of bank to grant loans. Moreover, between Trust, Length and Concentration (as independent variables) we did not find any link to distort the regression, as we succeeded to isolate individual influences of each variable on the dependant variable Renewal. The research results confirm, in a great extent, the findings in the literature, and contribute to a better understanding of Romanian SMEs expectations regarding their relation with banks as main lenders.

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