THE EFFECT OF MULTIPLE BANKING ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MOMBASA, KENYA

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CITATION: Wambua, F. M. & Mugambi, F. (2013). The effect of multiple banking on the performance of Small and Medium Enterprises in Mombasa, Kenya. *International Journal of Social Sciences and Entrepreneurship , 1* (5), 161-184.

ABSTRACT

Multiple banking has become increasingly popular across the globe and seems to have gained significant momentum. However, in spite of the growing rate of multiple banking, there is scanty information about the effects of this practice on the performance of small and medium enterprises in Kenya. The general objective of the study was to analyze the effects of multiple banking relationships on the performance of SMEs in Mombasa, Kenya. The study analyzed the effects of diversity of banking services, diversity of off-balance sheet items, diversity of relationship banking and multiple bank credit facilities on the performance of SMEs. The study utilized the descriptive survey research design. The target population for the study comprised 931 trade SMEs been licensed to carry out their businesses in Central Business District of Mombasa. A sample size of 258 SMEs was used, from which the business managers/proprietors were interviewed. The main data collection instrument was the structured questionnaire. The questionnaire was pilot-tested on 15 SMEs, which were excluded from the actual study sample. Data obtained from the pilot study was used to determine the reliability of the questionnaire, achieving a reliability coefficient of $\alpha = 0.83$. The collected data was analyzed with the aid of the Statistical Package for Social Scientists (SPSS). Descriptive statistics were used to summarize the data and establish characteristics of the study population and the findings presented using frequency distributions and percentages. The Pearson's Product Moment Correlation analyses were conducted to establish the relationships between independent and dependent variables of the study. The multiple banking variables: multiple business accounts, diversity of off-balance sheet items and diversity of relationship banking correlated positively with net asset value, profitability and growth of the SMEs.

Keywords: *Multiple banking, small and medium enterprises, relationship banking.*

Introduction

Multiple banking for small and medium enterprises (SMEs) is widely observed in many countries. There is cross-country evidence that many firms establish relationships with multiple banks. Ongena and Smith (2000), analyzing bank relationships in 20 European countries, show that only less than fifteen percent of the firms borrow from a single bank and that the average number of bank relationships is greater than five. Even small firms that would benefit most from relationship lending, borrow from multiple banks (Guiso and Minetti, 2004).

The structure of multiple bank among SMEs has undergone substantial changes since the financial turmoil in 2008 (Schmit and Warny, 2012). In their review of the evidence on bank relationships, Ongena and Smith (2000) summarize various estimates of the average number of bank relationships per firm across countries and data sets. The main features they highlight are: (i) multiple bank relationships are a common feature in nearly all the data sets; (ii) small firms tend to have fewer bank relationship than large firms; and (iii) country effects exist, e.g. firms in the United Kingdom, Norway and Sweden have fewer relationships than firms in Italy, Spain, Belgium and Portugal.

There is a trade-off between the benefits and risks of single banking and those of multi-banking. The main benefits of single banking stem directly from the economies of scale that a single bank relationship entails (Schmit and Warny, 2012). By purchasing multiple financial products and services from a single financial institution, a firm can procure them at a lower price than if it obtained them from multiple providers, the main reason being that the bank saves on information and transaction costs (Petersen and Rajan, 1994). Indeed, a number of studies suggest that repeated interaction between a firm and its provider of financial services creates value by reducing the information asymmetry in the firm-bank relationship, for instance by providing the lending bank with access to proprietary information. As a result, the costs of screening, risk assessment and monitoring involved in all new loan provision are considerably reduced.

A firm that dreads the risk of having a monopolistic banker securing long-term interest by charging higher-than-competitive rates after accepting lower returns up front may opt for multi-banking as an ex-ante means of limiting such ex-post rent extraction. However, by multiplying bank relationships, a firm risks losing the benefits of having a powerful bank monitor the firm's activities and the potentially valuable transfer of information this entails (Schmit & Warny, 2012).

There is a series of important reasons for multi-banking that fall into the category of pursuing strategic objectives. These reasons can be summed up as follows: information leakage management, credit market competition, anti-strategic default discipline, and plain business innovation.

Sometimes the rationale behind multi-banking is simply a wish to play competing suppliers of funds off against each other in an attempt to benefit from more favorable loan conditions. Petersen and Rajan (1995) argue that although credit market competition may be detrimental for fledgling companies or firms in difficulties it can nevertheless prove beneficial for mature, more financially solid firms since uncertainty about the firm's prospects is high when the firm is young or distressed, creditors in a competitive market may be forced to charge a high interest rate until the uncertainty is resolved. This may result in the firm not receiving credit at all. On the other hand, mature and financially solid companies do not share with fledgling companies or firms in difficulties the same uncertainty over their prospects.

A final reason for multi-banking stemming from strategic considerations may simply be to try and shake things up a bit. Being a defining moment for any firm, turning to a new bank is often a strategic decision taken by its top brass and considered as a means of exposing the business to fresh pairs of eyes, akin to hiring a consulting firm with an unsullied mindset. New insights into a business can often generate new ideas from which the scrutinized firm can benefit. A new lender, learning about a business for the first time, can potentially come up with innovative business ideas (e.g. cost savings or growth opportunities) that may have been overlooked by previous or current credit suppliers. In this case, the establishment or pre-existence of bank relationships facilitates the extension of additional credit lines by other banks. Indeed, Aleksanyan *et al*.(2010) show that, beyond one or two bank relationships, a bank will have a greater tendency to extend a loan to a firm if other banks are lending to it simultaneously.

An overview of previous evidence about relationship banking to SMEs shows that multiple banking relationships prevail in small firms, but there is hardly evidence on the number of banking relationships held by micro firms (Neuberger and Räthke, 2006). Yet, the number of bank relationships held by small and medium-sized enterprises (SMEs) is one of the key variables in the literature on relationship lending (Boot, 2000; Ongena & Smith, 2000a and Elyasiani & Goldberg, 2004).A low number of lending banks is usually considered an indicator of a close bank-customer relationship. The evidence of a large cross-country variation in the number of bank relationships with multiple banking relationships prevailing even at small firms has induced research on the determinants of this variable. While in empirical studies on relationship lending the number of bank relationships has often been treated as an exogenous variable, recent research focuses on explaining this number or the probability of multiple banking relationships.

SMEs are microenterprises that are treated with extreme caution by financial institutions, thus it is expected that they are especially prone to adverse selection and moral hazard and hence to credit rationing. The aim of this study was, therefore, to contribute to closing the gap in the empirical literature on the effects of multiple banking relationships the performance of SMEs. Beyond the academic interest of the study, it may be valuable for banks to understand the demand of SMEs for bank relationships. SMEs represent a customer segment in the profitable retail banking business, whose importance is growing with the expansion of the sector.

Problem Statement

Multiple banking has become increasingly popular across the globe and seems to have gained significant momentum, not just because of the financial shake-up following the recent credit crunch, but also because research has been consistently accumulating evidence over the years that multi-banking does indeed make sense. However there scarcely is an unambiguous rationale for multi-banking and against single banking. In Kenya multiple banking has gained prominence in the recent past especially, beginning in the 1990s after a wave of collapse of several banks such as Tropical Bank, Trust Bank, Euro bank among other banks, and exacerbated by the recent economic recession. In spite of the growing rate of multiple banking, there is scanty information about the effects of this practice, given that no studies have systematically investigated and documented the same especially in Mombasa. It is on this premise that this study was designed to analyze the effects of multiple banking relationships on the performance of small and medium enterprises in Mombasa, Kenya.

General Objective

The general objective of the study was to analyze the effects of multiple banking relationships on the performance of small and medium enterprises in Mombasa, Kenya.

Specific Objectives

The study was guided by the following specific objectives:

1. To determine the effect of multiple business accounts on the performance of SMEs in Mombasa, Kenya
2. To analyze the effect of diversity of off-balance sheet items on the performance of SMEs in Mombasa, Kenya.
3. To examine the effect of the diversity of relationship banking services on the performance of SMEs in Mombasa, Kenya
4. To determine the effect of multiple bank credit facilities on the performance of SMEs in Mombasa, Kenya.

Literature Review

This chapter is a review of literature related to the study. The chapter reviewed studies carried out by scholars in the field of multiple banking relationships and business performance. The objective of the section was to identify knowledge groups in multiple banking and business performance. The literature review was discussed under sub-headings of: concept of multiple banking, diversity of banking services and SME performance, diversity of relationship banking and SMEs performance and multiple credit facilities and SME performance. The chapter also provides the conceptual framework that shows the graphical relationship between the independent and dependent variables, provides a critique of the literature reviewed, summarizes the literature review and identifies the research gaps that the study sought to fill.

The Concept of Multiple Banking

Across the globe, it is widely observed that firms deal with more than one bank. Ongena and Smith (2000b) present an overview of studies of various countries and find a range of the average number of banking relationships between 1.6 for small US firms in 1987 to even 33.2 for Italian firms. Ongena and Smith (2000a) observe that larger firms (as measured by sales) hold more bank relations. Furthermore, there seem to be cross-country financial system variables that are relevant to explain national differences.

The existing research refers to three main motivations for multiple banking relationships. First, multiple relationships may arise when one bank cannot provide all the needs of a firm. This may be expected to occur when the firm is large, complex, and geographically dispersed, requiring more types of services in more locations. Multiple relationships may arise, for example, when the firm's main bank is too small or concentrated to diversify the firm's risks; when the firm needs domestic and international services and the main bank has sufficient expertise in only one of these categories; or when the firm's main bank does not have offices in all the localities where the firm needs services (Berger *et al.*, 2005).

Second, firms may seek multiple banking relationships to mitigate the hold-up problem of a single relationship bank (Von Thadden 1995; Boot, 2000). This incentive may be greater when banking markets are less competitive, offering fewer potential alternatives in the future event that their main bank tightens contract terms dramatically (Berger *et al.,* 2005).

Third, firms may engage in multiple relationships to insure themselves against a premature withdrawal of credit or other services due to the distress of their bank, rather than any deterioration in their own creditworthiness (Detragiache, Garella, and Guiso 2000). By maintaining additional relationships, the firm can increase the likelihood that at least one informed bank would be able to continue providing services, reducing the costs of bankruptcy or financial distress for the firm.

All three motives may create strong incentives for multiple relationships in developing economies. Banks in these nations often have limited abilities to provide services; there may be significant market power because bank competition is frequently restricted; the banks are commonly financially fragile and the firms may often be in poor condition and cannot bear the costs of losing access to their main source of external finance(Berger *et al.,* 2005). Multiple banking may be an efficient solution to providing the full range of services needed by the firm, but may alternatively result in inefficient duplication of costs and underinvestment in due diligence when it is used for mitigating problems of market power or bank fragility.

Diversity of Banking Services and SME Performance

The impact of the exclusive banking relation or its multiplicity on the appropriations and the performance of the companies is a double-edged weapon. On the positive side, some companies seek to have several banking relations in order to minimize the probability of the interruption of financing (Mark, 2002 and Berger and Al, 2005). Thus, the multiple banking relations especially constitute an insurance against the loss of their informational flows revealed by the company when the banking system is fragile (Brewerand Al, 2003 and Ongena and Al, 2003).

A study of Detragiache *et al.* (2001) proposes the possibility of not granting appropriations to the companies having only one bank because of problems of unfavorable selection. Indeed, according to Thakor (1996), a company may find it beneficial to have several bank relations in order to limit the risk of rationing of credit. But, if the control carried out by only one bank is ineffective, then resorting to the multiplicity of the banking relations presents a more advantageous solution. Moreover, Farinha and Santos (2002) say that the diversification of the banking relations does not necessarily present an additional cost of financing for the company because it is dependent on the cost of control supported by the bank and of the facility of obtaining and data processing concerning the companies.

Having several banking relations does have negative effects on the company. Indeed, the multiplicity of banking relations minimizes the incentive of each bank to collect information and to control the company. In addition, Petersen and Rajan (1995) preach that the multiple banking relations favour the appearance of a mimetic behavior in the banks. Indeed, each one tries to decrease its effort of evaluation and to base its own decision on that of the others (Rajan, 1992). Moreover, faced with multiple relations, banks can grant credits by requiring high guarantees of carrying out their activities of control.

Studies about the impact of the banking arrangement on firm performance have recently begun to look at the two-way correspondence between the number of banking relationships and firm profitability, examining the determinants of both variables (Degryse and Ongena 2001, Fok *et al.*, 2004). The first studies that regressed the number of bank relationships on a broader set of independent variables have been undertaken by Ongena and Smith (2000b) for a cross section of 20 European countries, by Detragiache *et al.* (2000) for SMEs in Italy and by Harhoff and Körting (1998b) and Machauer and Weber (2000) for SMEs in Germany. They have induced recent studies for the U.S. (Guiso and Minetti 2004), Italy (Cosci and Meliciani 2002), France (Ziane, 2003), Argentina (Berger *et al.* 2001), Taiwan (Yu and Hsieh 2003, Fok*et al.*, 2004), India (Berger *et al.*, 2005), Japan (Ogawa *et al.*, 2005) and a cross section of 60 countries (Qian and Strahan 2005).

Diversity of Relationship Banking and SME Performance

Relationships are commonly employed by banks to gather information about their customers. A closer and continuous relationship with customer often involves contact over a number of years and the supply of multiple services, including credit extension, provision of deposit services and other related facilities (Rajan, 1992). This forms the basis of *relationship lending* wherein banks develop multiple lender-customer interactions over time and across products which enables banks to obtain customer-specific information (often of proprietary nature) and the evaluation of the profitability of lending through multiple financial services.

It is often observed that firms forge relationships with multiple banks. Such multiple banking relationships often have conflicting implications with regard to credit availability. In the presence of information asymmetry between lenders and borrowers, adverse selection and moral hazard can lead to credit rationing (Stiglitz and Weiss, 1981). Thus, firms are unable to obtain all the credit they demand at the going market interest rate. Adverse selection problems are particularly severe in the market for small business financing. In this case, exclusive and long-term banking relationships can mitigate credit rationing since relationship banks internalize the benefits of subsidizing firms over time. At the same time, firms with single banking relationships are more at risk of not being able to obtain additional credit if their bank refuses to provide it, because non-relational banks are likely to suspect that the firm is a lemon. Therefore, both good and bad quality firms may choose to engage in multiple banking relationships to ensure stable access to finance.

Some studies investigate the determinants of a firm's choice of number of banking relationships. Detragiache *et al*. (2000) address this question by developing an analytical framework in which a firm with good investment opportunity establishes multiple banking relationships from the start in order to avoid the risk of financing difficulties should it encounter liquidity problems. Using cross-section data for small and medium-sized manufacturing firms, the authors then test the model and find that the number of banking relationships is positively correlated with bank fragility. Berger *et al*. (2001) using data set on Argentine firms, find that small firms choose multiple banking relationships over single banking relationship as a reaction to bank distress, even though this increases their cost of credit. Cosci and Meliciani (2002) using data from a large Italian bank find that the number of banking relationships is positively related to a firm's leverage and the riskiness of the sector in which the firm operates.

An important facet of relationship lending is the tenure of the relationship. Earliest studies on this aspect found that the longer the duration of the relationship, the greater the availability of credit (Petersen and Rajan, 1994). A further significant factor in this context is the cross-subsidization of loan rates over the monetary cycle as rates in bad times are reduced by charging marginally higher rates in good times (Berlin and Mester, 1999). Boot (2000) asserts that contract terms improve over the length of the relationship with interest rates and collateral requirements falling. An important aspect of the process is the existence of multiple relationships. Petersen and Rajan (1994) demonstrate that the existence of multiple lenders increases price and reduces the availability of credit.

Multiple Credit Facilities and SME Performance

Empirical evidence on the effects of single versus multiple banking relationships on firms' performance is mixed. Angelini, Di Salvo and Ferri (1998), studying a sample of small Italian firms, find evidence that liquidity constraints are relatively less frequent for firms borrowing from a limited number of banks, with a resulting positive impact on firms' performance. Petersen and Rajan (1994) find that multiple bank relationships are associated with higher interest payments and more credit constraints. Data from the United States, Japan and almost all European Union (EU) countries indicate that small firms tend to borrow from fewer banks than large firms (Ongena and Smith, 2000). This is in line with theoretical models which suggest that relationship lending can have a number of benefits for small firms including lower cost or greater availability of credit due to efficient gathering of information, protection against credit crunches and provision of implicit interest rate or credit risk insurance (Berger and Udell, 1998).

Berger, Klapper and Udell (2001) find that Argentinean firms tend to borrow from more than one bank when their primary bank is financially distressed and that smaller firms prefer exclusive lending relationships. Based on US data, Petersen and Rajan (1995) find that small and young firms tend to be less credit constrained and to receive better lending rates when they borrow from only one bank. This result is stronger in more concentrated credit markets, suggesting that small borrowers may be worse off with competition among banks. Cole's (1998) evidence indicates that the existence of a single bank relationship increases the probability of extension of credit for small businesses in the US.

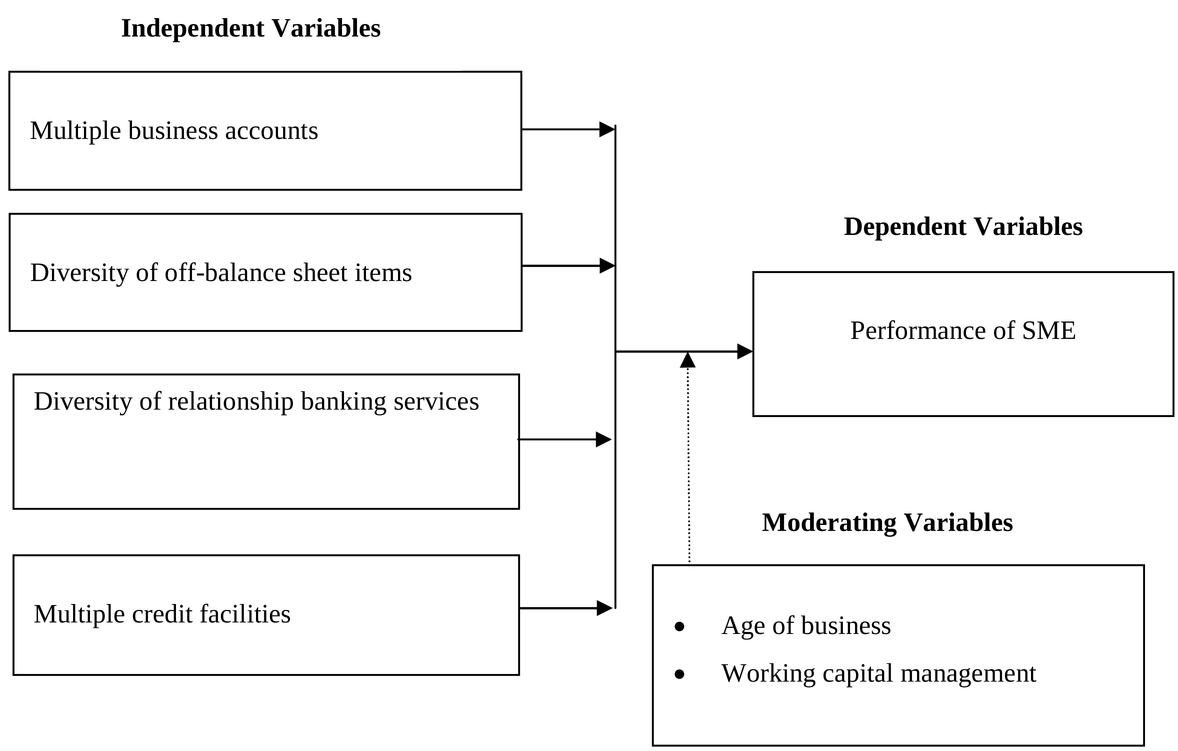
Theoretical Framework

The study was based mainly on Detragiache *et al.*(2000) theory of Multiple Versus Single Banking Relationships, supported by Diamond (1984), Sharpe (1990) and Rajan (1992).According to the theory, relationship banks may be unable to continue funding profitable projects owing to internal problems and a firm may thus have to refinance from non-relationship banks. The latter, however, face an adverse selection problem, as they do not know the quality of the project, and may refuse to lend. In these circumstances, multiple banking can reduce the probability of an early liquidation of the project. Detragiache *et al.'s* (2002) theoretical model indicates that multiple banking ensures a more stable supply of credit, and reduces the risk of premature liquidation of the investment project. If there is a positive probability that the relationship will be terminated because of reasons internal to the bank (e.g., liquidity problems), the firm may expect to have to resort to non-relationship finance at some time in the future. But in accessing this source of credit, the firm faces an adverse selection problem, as outsiders have less information than relationship lenders and suspect that the firm may be a bad risk. When the adverse selection problem is so severe that non-informed finance is unavailable, then it may pay off to establish more than one relationship from the start. The theoretical model predicts that firms whose banks are less fragile or whose creditors find it more difficult to enforce loan repayment should be more likely to resort to multiple banking. Conditional on adopting multiple banking, however, bank fragility should be associated with a larger number of relationships. The expected profitability of the project has effects similar to bank fragility.

Conceptual Framework of the Study

The conceptual framework of the study shows the graphical relationship multiple banking and the SMEs performance. The conceptual framework is as shown in Figure 1.

Figure 1: Conceptual Framework of the Study



The study has two main variable, multiple banking (independent) and performance of the SMEs (dependent). The independent variable was broken down into four sub-variables namely: multiple business accounts, diversity of off-balance sheet items, diversity of relationship banking services and multiple bank credit facilities.

It was hypothesized that SMEs with multiple banking relationships operate different bank accounts with the banks they have relationships with and have access to diverse off-balance sheet items (credit guarantees, local purchase order clearances, etc), receive various relationship banking services (business advices, financial advices, etc) from diverse sources and are likely to utilize diverse credit facilities (short and long-term credit, mortgages and bank overdrafts) from different banks. Therefore, SMEs with multiple banking relationships due to the perceived benefits from such relationships were expected to have positive business performance which is assessed was terms of business profitability and growth.

The relationship between multiple banking and SME performance is moderated by factors such as the business age and the manner in which the working capital is managed by the SME proprietors.

Critical Review

The literature reviewed revealed mixed findings with respect to single versus multiple banking relationships and their relationship with firm performance. Whereas the reviewed studies enumerated the effects of multiple banking relationships on a number of firm performance variables, these studies failed to adequately investigate various aspects of multiple banking relationships such as diversity of banking services and diversity of relationship banking, both of which were likely to impact on the performance of a business enterprise. More so, the studies assessed firm performance mainly in terms of profitability, return on asset (ROA) and return on investments (ROI). Firm performance cannot only be measured in terms these variables but also in terms of growth, which, to a great extent dependents on the financial services received either from a single or multiple banking relationships. It was therefore imperative to conduct this study to address the conceptualized aspects of multiple banking while at the same time examining the impact of such multiple banking variables in the SME sector which has largely been ignored by the reviewed studies.

Methodology

This chapter describes the research design, sample and sampling procedures, research instruments, data collection and analyses procedures. Many scholars argue that educational research essentially is a systematic process of collecting and analyzing data for particular purposes (Morison, 2007; Wiersma & Jurs, 2005; Nardi, 2003; Wiersma, 2000). The term 'systematic' in research implies a sense of order and structure in the process of selecting research approaches, data collection, analyses, and interpretation. In other words, the research inquiry requires an integration of planning, process to research outcomes. In this context, Wiersma and Jurs (2005) describe the characteristics of the systematic nature of the research process as identifying the problem, collecting data, reviewing information, analyzing data and drawing conclusions. Therefore, in view of the fact that this research was a systematic inquiry, the study employed the dimensions of both quantitative and qualitative approaches.

Research Design

The study utilized the descriptive survey research design with quantitative and qualitative approaches. The descriptive survey design attempts to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. In the case of this study, the variables related to multiple banking and the performance of SMEs. This design was appropriate due to its advantages as identified by Reinharz (1992). These are: It can put a problem on the map by showing that it is more widespread than previously thought; Survey-based prevalence data are useful in demonstrating that a problem is distributed in a particular way throughout the population. This distribution may suggest factors that contribute to the problem, and these factors, in turn, provide hints as to how the problem may be prevented or remedied through particular forms of action; it can also help identify differences among groups and changes over time.

Sample Size and Sampling Procedures

This section gives the sample size that was used in the study and describes the procedures used in selecting the sample.

A sample size is a definite plan determined before data is actually collected for obtaining a sample from a given population (Orotho, 2005). Krejcie and Morgan (1970) developed a more scientific method of calculating the sample size. They developed a table of sample sizes (Appendix II) based on a formula for determining sample size published by the research division of the National Education Association. The authors created this table for ease of use and to facilitate research. The formula used to determine the sample size is as follows:

$$S = \frac{X^2NP(1 - P)}{d^2(N - 1) + X^2P(1-P)}$$

Where:
S = the required sample size
X^2 = the table value of chi-square for one degree of freedom at the desired confidence level (0.05) which is equal to 3.841 (or 1.96^2)
N = the population size
P = the proportion of the population, assumed to be 0.50 since this would provide the maximum sample size.

Applying the formula, a population N of 931 SMEs yielded a sample size of:

$$S = \frac{841 \times 931 \times 0.5 \times (1-0.5)}{0.05^2 \times 930 + 3.841 \times 0.5(1-0.5)} = \frac{893.99}{3.29} = 271.73$$

Data Collection

A research permit was obtained from the National Council for Science and Technology (NCST) after obtaining approval letter from the Graduate School, JKUAT. This was followed by training of four research assistants on key concepts of research, data collection techniques as well as communication skills. A reconnaissance visit was made to the study to map out the SMEs that would participate in the study. The questionnaires were administered personally by the researcher, with the help of the research assistants.

Data Analysis

Since this study employed both quantitative and qualitative approaches, data analysis processes equally involved quantitative and qualitative methods. According to Krathwohl (1993) the quantitative research refers to research that describes phenomena in numbers and measures, instead of words; whereas qualitative research is research that describes the phenomena in words instead of numbers or measures. Krathwhol's description shows how the data are presented. In this case, Wiersma (2000) clarifies that in regard to the way data are presented, qualitative research relies heavily on narrative description, while quantitative research on statistical results.

The collected data was checked for completeness, edited, coded and then entered into the computer. Data analysis was done with the aid of the Statistical Package for Social Scientists (SPSS). Using the SPSS for quantitative analysis, descriptive statistics and correlation analysis methods were applied to analyze the data. Use was made of descriptive statistics to summarize the data and establish characteristics of the study population. The tools of analysis used to present the result findings were frequency distributions and percentages. To establish whether the independent variables in the study were correlated with the dependent variable, further analyses were done using inferential statistics (Pearson's Product Moment Correlation).

Results and Findings

Multiple Banking among SMEs

The study sought to establish the level of multiple banking relationships among the SMEs and the reasons for such practices, particularly in Mombasa, Kenya. This section, therefore, presents and discusses the level of multiple banking and the reasons for the same.

Level of Multiple Banking among SMEs

The respondents were asked to indicate the number of banks with which they operated business accounts with. The findings were as shown in Table 1 below.

Table 1: Level of Multiple Banking among SMEs

Level of Multiple Banking	Frequency	Percentage
2 to 4 banks	147	57.0
5 to 7 banks	29	11.2
8 to 10 banks	74	28.7
Over 10 banks	8	3.1
Total	**258**	**100.0**

Majority of the SMEs (57%) reported that they had between 2 to 4 banking relationships. Twenty nine percent (29%) had between 8 to 10 banking relationships, 11% had 5-7 banking relationships and at least 3% had over 10 banking relationships. None of the sampled SMEs had single banking relationships, indicating that 100% of SMEs have multiple banking relationships thus the popularity of multiple banking in these enterprises.

Reasons for Multiple Banking

The respondents were asked to rank the reasons for multiple banking, on a scale of 1-5, from the most important to the least. The means and standard deviations of the respondents' rankings were analyzed and presented as shown in Table 2.

The findings in the table indicate that the most important reason for multiple banking was the need to take benefit from multiple credit facilities with a mean of 4.56 while the least important was to get services from other banks in case one of the banks failed to deliver on the needs of the SMEs, with a mean ranking of 1.53. Significantly important too was the fact that different banks offer different banking services with a mean of 3.44 and the idea that by multiple banking, the SMEs are able to spread the risks associated with banking with an average score of 3.14.

Table 2: Reasons for Multiple Banking

Reasons for multiple banking	N	Mean	Std. Dev
1. To benefit from several credit/loan facilities	258	4.56	.958
2. Different banks offer different banking services	258	3.44	.872
3. To spread the risks associated with banking	258	3.14	.963
4. Absence of original bank where my business branches are located	258	2.21	1.068
5. To get services from the other banks in case one of the banks fails to deliver.	258	1.53	.917

Given, the important role the SMEs play in the economic development of the country, a number of government-initiated SME financing programmes specifically tailor-made to meet the needs of these enterprises and implemented through the financial institutions may be associated with multiple banking relationships.

Effect of Multiple Business Accounts on the Performance of SMEs

The first objective of the study was to determine the effect of multiple business accounts on the performance of SMEs. Multiple business accounts were assessed in terms of the number of banks with which the SMEs held business accounts (savings, current and fixed deposit accounts), while performance was evaluated in terms of profitability and business growth. To assess profitability of the SMEs, the respondents were asked to indicate, on a scale of 1(decreasing profits) to 4 (increasing profits), the trend in their business profits over a three year period prior to the study. On the other hand, business growth was evaluated on the basis of changes in the number of employees and net asset value, obtained by calculating the difference between the respective values at the start of the business and the values as at the time of this study then calculating the percentage changes in these business growth indicators for further correlation analysis. A Pearson's Product Moment Correlation (PPMC) analysis was then conducted to determine the relationship between multiple business accounts and the SME's performance indicators. Table 3 shows the correlations between Multiple Business Accounts and SME's Performance.

Table 3: Correlation between Multiple Business Accounts and SMEs Performance

		Multiple Business Accounts	Net Asset Value	Number of Employees
Multiple Business Accounts	Pearson's (r)	1		
	P-Value			
Net Asset Value	Pearson's (r)	.540**	1	
	P-Value	.000		
Number of Employees	Pearson's (r)	.730**	.548**	1
	P-Value	.000	.000	
Profitability	Pearson's (r)	.447**	.129	.266**
	P-Value	.000	.051	.000

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation analysis revealed that there were significant positive relationships between multiple business accounts and net asset value (r=0.54), growth in the number of employees (r=0.73) and profitability (r=0.48). The correlations were significant at the 0.01 level of significance, indicating that growth of the SMEs was associated with multiple business accounts held in several banks by the SMEs. Comparatively, the correlation between multiple business accounts and growth in the number of employees was stronger that the other two performance indicators, indicating that an increase in the number of employees is strongly related to multiple business accounts. The findings also revealed significant positive relationships between growth in the number of employees and net asset value (r=0.55) and profitability (r=0.27), but the relationship between net asset value and profitability of the SMEs remained marginally insignificant.

Opening and operating a bank account of any nature is usually the entry point that marks the beginning of a banking relationship between the account holder (SME) and the bank, from which other customer-oriented benefits accrue. Closely related to this, different bank accounts in different banks attract different and unique branded service benefits associated with them, which the account holders are entitled to and definitely benefit from relative to meeting their obligation thereof. It can therefore be argued that operating a bank account mediates the relationship between the other multiple banking variables and the dependent variables (business performance) thus the positive correlations between multiple business accounts and net asset value, business growth in terms of increased number of employees and profitability. Examples of business bank accounts that provide myriad of beneficial services and opportunities that go along the main account operating activities to the SME operators include business club and prestige accounts, whose members are usually exposed to business exchange trips in developed countries to learn on best practices. Such opportunities are likely to impact positively on business performance.

As far as the findings of this study may be referred to, operating of interest-earning bank accounts such as fixed deposit accounts and savings accounts in some banks significantly contribute to business income positively, which largely implies positive business performance especially where a business has several of such business accounts in different banks. Current accounts holders may utilize other services associated with current accounts such as bank overdrafts which, when effectively used for short term business financing may have positive effect on business performance and chequing used for payment of business suppliers conveniently to save time besides retaining business operating capital for fast-moving stock from suppliers paid in cash, thus enhancing business income. More profits may accrue from the fast-moving stock, which may then be used to increase business assets hence the positive correlations between these variables.

Effect of Diversity of Off-Balance Sheet Items on the Performance of SMEs

The second objective of the study was to analyze the effect of diversity of off-balance sheet items on the performance of SMEs. The off balance items that were included in this study were mainly the credit guarantees issued to a client by their bank guarantee payment so as to secure a contract without tying working capital of the business and letters of credit which guarantees payment to the exporter on receipt of shipping documents. This section presents the findings on the percentage of SMEs that utilize these items/services and their relationships with performance of the business enterprises.

Utilization of Off-Balance Sheet Items

The study sought to determine the percentage of SMEs that utilized the credit guarantees and letters of credit services provided by banks. The findings were as shown in Table 4.

Table 4: Utilization of Off-Balance Sheet Items

	Credit guarantees		**Letters of Credit**	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Yes	193	74.8	-	-
No	65	25.2	**258**	**100.0**
Total	**258**	**100.0**	**258**	**100.0**

The findings in Table 8 indicate that none of the SMEs that were sampled utilized letters of credit. On the other hand, majority of them (75%) made use of credit guarantees. Utilization of credit guarantees is an indicator that majority of SMEs transact contracting businesses that require reliable financial service providers, hence the need to enter into many banking relationships in an effort to secure such guarantees from the most promising banking partner(s). In some cases, the clients issuing such contracts may require undertakings and commitments from more than one banking institution, thus exacerbating multiple banking relationships among the SMEs if they are to strategically maintain a competitive advantage.

Relationship between Diversity of Off-Balance Sheet Items and SME Performance

A Pearson's Product Moment Correlation was conducted to determine the relationship between off-balance sheet items and the performance of SMEs. The findings were as shown in Table 5 below.

Table 5: Relationship between Diversity of Off-Balance Sheet Items and SME Performance

		Off-balance sheet items (Guarantees)	**Asset Value**	**Number of Employees**
Off-balance sheet items (Guarantees)	Pearson's (r)	1	.285**	.424**
	P-Value		.000	.000
Asset Value	Pearson's (r)	.285**	1	.548**
	P-Value	.000		.000
Number of Employees	Pearson's (r)	.424**	.548**	1
	P-Value	.000	.000	
Profitability	Pearson's (r)	.604**	.129	.266**
	P-Value	.000	.051	.000

**. Correlation is significant at the 0.01 level (2-tailed).

The findings indicate that there were significant, positive relationships between diversity of off-balance sheet items (credit guarantees) and SME performance with respect to asset value (r=0.29), growth in the number of employees (r=0.24) and profitability (r=0.60). The relationships were significant at the 0.01 level of significance, indicating that SME performance was associated with the diversity/multiple utilization of credit guarantees.

Bank credit guarantees are usually used by firms in order to keep their debt to equity ratio low. Credit guarantees are used by the SMEs to leverage the contractual requirements that are necessary in securing profitable business opportunities for these enterprises. This way, the SMEs are able to perform tasks that would have otherwise been beyond the financial capability of their enterprises and thus make profits and grow. SMEs that utilize many of this type of off-balance sheet item from several banks which they operate, therefore, create more business opportunities, make more income and grow in size, thus the positive correlation between credit guarantees and SME performance.

Effect of Diversity of Relationship Banking Services on the Performance of SMEs

The third objective of the study was to examine the effect of the diversity of relationship banking services on the performance of SMEs. This section presents and discusses the SMEs views on the importance of the relationship banking services and analyzes the relationship between the diversity of these services and the performance of the SMEs.

Importance of Relationship Banking Services

The SME operators were asked to indicate the extent to which they considered given relationship banking services important to their respective businesses. The findings were as shown in Table 6.

Table 6: Importance of Relationship Banking Services to SMEs

	Relationship management services	Not at all	To a limited extent	To a moderate extent	To a large extent	To a very large extent	Total
i.	Close contact with relationship manager	-	11.6%	18.2%	39.9%	30.2%	**100%**
ii.	Financial advise	3.1%	8.5%	12.0%	52.3%	24.0%	**100%**
iii.	Business/entrepreneurial advice	3.1%	17.4%	3.1%	52.3%	24.0%	**100%**
iv.	Accessible relationship manager to provide required assistance	-	-	19.8%	52.3 %	27.9%	**100%**
v.	All relevant information regarding all the services that you are entitled to	5.4%	-	14.3%	54.7 %	25.6%	**100%**
vi.	Timely delivery on promised service	-	5.4%	14.7%	42.6%	37.2%	**100%**

The findings in the table indicate that generally, the SMEs considered the relationship banking services important at least to a large extent. Specifically, timely delivery on promised services was the leading relationship service most important to the SMEs, with a cumulative 80% of the SMEs indicating that it was most important at least to a large extent. On the other hand, the least scoring relationship banking service was business/entrepreneurial advice, with the highest percentage response (17%) of “To a limited extent” compared to the other response categories and across all the relationship banking services.

Diversity of Relationship Banking Services

The SME operators were asked to indicate the number of banks from which they enjoyed the relationship banking services. Their responses were as shown in 7.

Table 7: Diversity of Relationship Banking Services

	Relationship Banking Services	Number of Banks					
		1	2 - 4	5 -7	8 -10	Over 10	Total
i.	Close contact with relationship manager	-	12.8%	78.3%	8.9%	-	**100%**
ii.	Financial advise	-	34.5%	43.0%	16.7%	5.8%	**100%**
iii.	Business/entrepreneurial advice	-	37.6%	53.1%	5.8%	3.5%	**100%**
iv.	Accessible relationship manager to provide required assistance	4.3%	43.8%	28.7%	17.4%	5.8%	**100%**
v.	All relevant information regarding all the services that you are entitled to	-	39.1%	41.5%	15.9%	3.5%	**100%**
vi.	Timely delivery on promised service	-	33.3%	48.4%	18.2%	-	**100%**

The findings indicate that majority of the SMEs (78%) enjoyed close contact with relationship managers from 5-7 banks, 53% got business/entrepreneurial advice from relationship managers of a similar number of banks. Significant percentages of 18% 17%, 17% and 16% enjoyed timely delivery on promised service, accessible relationship manager to provide required assistance, financial advice and all relevant information regarding all the services that the SMEs are entitled to respectively from 8-10 banks. Although earlier findings revealed that none of the SMEs maintained a single banking relationship, it was noted that at least 4% of the SMEs enjoyed the services of an accessible relationship manager to provide required assistance in a single bank.

Relationship between Diversity of Relationship Banking Services and SME Performance

To determine the relationship diversity of relationship banking services and SME performance, a scoring strategy was adopted for the number of banks from which the SMEs enjoyed the services of their respective relationship managers where a score of 0 was adopted for none, 1 for 2-4, 2 for 5-7, 3 for 8-10 and 4 for over 10 banks. These scores were correlated with the performance indicators and the findings were as shown in Table 8.

Table 8: Correlation between Diversity of Relationship Banking Services and SME Performance

		Diversity of Relationship Banking Services	Asset Value	Growth in Number of Employees
Diversity of Relationship Banking Services	Pearson's (r)	1		
	P-Value			
Asset Value	Pearson's (r)	.548**	1	
	P-Value	.000		
Growth in Number of Employees	Pearson's (r)	.479**	.548**	1
	P-Value	.000	.000	
Profitability	Pearson's (r)	.315**	.129	.266**
	P-Value	.000	.051	.000

		Diversity of Relationship Banking Services	Asset Value	Growth in Number of Employees
Diversity of Relationship Banking Services	Pearson's (r)	1		
	P-Value			
Asset Value	Pearson's (r)	.548**	1	
	P-Value	.000		
Growth in Number of Employees	Pearson's (r)	.479**	.548**	1
	P-Value	.000	.000	
Profitability	Pearson's (r)	.315**	.129	.266**
	P-Value	.000	.051	.000

**. Correlation is significant at the 0.01 level (2-tailed).

The PPMC analysis revealed that there were significant positive relationships between diversity of relationship banking services and asset value (r=0.55), growth in the number of employees (r=0.48) and profitability of the SMEs (r=0.32). The correlations were significant at the 0.01 level of significance, indicating that performance of the SMEs with respect to asset value, growth in the number of employees and profitability was associated with diversity of relationship banking services as a result of multiple banking relationships.

Effect of Multiple Bank Credit Facilities on the Performance of SMEs

The final objective of the study was to determine the effect of multiple bank credit facilities on the performance of SMEs. Credit facilities were conceptualized to constitute mainly short-term and long-term credit, while multiple utilization of credit facilities was evaluated on the basis of SMEs utilization of these facilities from several banks. Thus, this section presents and discusses findings on the types of credit facilities utilized and the relationship between the diversity of these facilities and the performance of SMEs.

Type of Credit Facilities used by SMEs

The respondents were required to indicate the whether they had ever utilized credit facilities from the banks in which they held business accounts. Their responses were as shown in Table 9.

Table 9: Type of Credit Facilities used by SMEs

	Long-term credit		Short term credit	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Yes	163	63.2	225	87.2
No	95	36.8	33	12.8
Total	**258**	**100.0**	**258**	**100.0**

The findings indicate that there were more of the SMEs utilizing short-term credit (87%) than those who utilized long-term credit facilities (63%). Further analysis indicated that 68% of the SMEs utilized both long-term and short-term credit facilities while 23% never utilized any of the credit facilities.

Relationship between Multiple Long-Term Credit Facilities and SME Performance

The SME operators were asked to indicate the number of banks from which they had utilized long-term credit facilities. A Pearson's Product Moment Correlation was conducted to determine the relationship between multiple long-term credit facilities and SME performance and the findings presented in Table 10.

Table 10: Correlation between Multiple Long-Term Credit Facilities and SME Performance

		Long-term credit	Asset Value	Number of Employees
Long-term credit	Pearson's (r)	1	-.575**	-.469**
	P-Value		.000	.000
Asset Value	Pearson's (r)	-.575**	1	.548**
	P-Value	.000		.000
Number of Employees	Pearson's (r)	-.469**	.548**	1
	P-Value	.000	.000	
Profitability	Pearson's (r)	-.009	.129	.266**
	P-Value	.884	.051	.000

**. Correlation is significant at the 0.01 level (2-tailed).

There were significant negative relationships between multiple long-term credit and asset value (r= -0.75) and growth of the SMEs with respect to the number of employees (r= -0.469). The correlations were significant and the 0.01 level of significance, indicating that SMEs that utilized long-term credit from several banks reported negative results in terms of asset value and growth in number of employees. However, the relationship between multiple long-term credit and SME profitability remained insignificant, indicating varied business performance results across long-term credit utilization levels.

Whereas this study finds that SMEs that enter into multiple long-term credit relationships have negative business performance with regard to asset value and growth in the number of employees, it has been argued that firms having strong long-term credit financing relationships are more effective than other firms. Concentrating on long-term growth through long-term investment helps firm create sustainable performance implying that firms having strong relationship use financial leverage better than other firms. However, in multiple long-term credit relationships as shown in this study, the opposite is true. The absence of a statistically significant relationship between multiple long-term credit and profitability implies that there no difference in profitability between SMEs engaging in more long-term credit relationships and the others. Thus, the effectiveness of SMEs that establish more long-term relationships is not significantly better than those which establish fewer of such relationships.

Relationship between Multiple Short-Term Credit Facilities and SME Performance

A Pearson's Product Moment Correlation was conducted to determine the relationship between multiple short-term credit facilities and SME performance and the findings presented in Table 11.

Table 11: Correlation between Multiple Short-Term Credit Facilities and Sme Performance

		Multiple Short-term credit	Asset Value	Number of Employees
Multiple Short-term credit	Pearson's (r)	1	-.314**	-.297**
	P-Value		.000	.000
Asset Value	Pearson's (r)	-.314**	1	.548**
	P-Value	.000		.000
Number of Employees	Pearson's (r)	-.297**	.548**	1
	P-Value	.000	.000	
Profitability	Pearson's (r)	-.069	.129	.266**
	P-Value	.272	.051	.000

***. Correlation is significant at the 0.01 level (2-tailed).*

The PPMC analysis revealed that there were significant negative relationships between multiple short-term credit facilities and SME performance with respect to asset value (r= -0.314) and growth in relation to number of employees (r= -0.297). The correlation between multiple short-term credit facilities and profitability though negative, was insignificant. As was the case with multiple long-term credit, there is an inverse relationship between utilization of short-term credit facilities from multiple banks and SME performance indicators of asset value and business growth as evidenced by the number of employees.

The negative correlations between multiple short-term credit facilities and SME performance variables (asset value and growth in relation to number of employees) may be attributed to the fact that due to the short repayment period for short time credit (usually within a period of one year), SMEs that have multiple short-term credit relationships from several banks become overwhelmed in the course of time by the many liabilities and given that business enterprises often experience challenges in terms of volume of sales, the likely action may be repayment of the credit facilities using the business working capital resulting in reduced stocks and thus poor business performance.

Multiple short-term credit facilities may also be exacerbated by practices of borrowing from one bank to repay another credit facility in a different bank, which destructs the focus of the entrepreneur from business development. In fact, some firms usually use short-term loans to cover to long-term businesses. Firms having multiple short-term credit financing relationships are less effective than the others. The effort of speeding up activities in the short-term is ineffective when market purchasing power declines seriously. Therefore, firms fall into distress condition and face short-term cash flow pressures. Having multiple short-term credit financing relationships may help firms solve hold-up problem in short-term, but firms have to accept higher borrowing cost in trade-off. This explains why multiple short-term credit financing relationships correlate negatively to with SME performance.

Discussion

The purpose of this study was to analyze the effects of multiple banking relationships on the performance of small and medium enterprises in Mombasa, Kenya. This chapter therefore presents a summary of findings, conclusions and recommendations. The chapter further gives suggestions for further research.

Summary

The study utilized a sample size of 258 SMEs, representing a 95.6% response rate of the original sample size. All the SMEs were involved in multiple banking relationships. 57% of the SMEs reported had 2 - 4 banking relationships and at least 3% had over 10 banking relationships. The most important reason for multiple banking was to take benefit from multiple credit facilities, followed distantly by the perception that different banks offered different banking services, while the least important was the strategic positioning to get services from other banks in case one of the banks failed to deliver on the needs of the SMEs.

The study established that SMEs that held business accounts in many banking institutions reported better performance in the assessed performance indicators than those with business accounts in fewer banks. When firms increase number of bank relationships, they will increase the power of negotiation hence may get lower interest rates, reduce hold-up cost, easily get more loans for investment, and improve the liquidity of cash flow, resulting to firms' performance increase (Huu and Nguyen, 2013).

With regard to off-balance sheet items, the study established none of the sampled SMEs utilized letters of credit, but 75% of them made use of bank credit guarantees. Use of diverse bank credit guarantees correlated positively with the SME performance with respect to net asset value, growth in with respect to the number of employees and firm profitability. The SMEs considered relationship banking services important mainly to a large extent. Among the relationship banking services assessed, timely delivery on promised services was ranked as the most important to the SMEs while the least important service was business/entrepreneurial advice. On the other hand, close contact with relationship managers and business/entrepreneurial advice from relationship managers were the most diversely enjoyed services. There existed significant positive relationships between diversity of relationship banking services and net asset value, growth in the number of employees and profitability of the SMEs.

Finally, the study established that that there were more of the SMEs utilizing short-term credit than those who utilized long-term credit facilities. However, 68% of the SMEs utilized both long-term and short-term credit facilities while 23% never utilized any of the credit facilities. There existed significant negative relationships between both multiple long-term credit and multiple short-term and net asset value and growth of the SMEs with respect to the number of employees, but the relationships between both types of credit facilities and SME profitability remained insignificant. In their study of the effect of banking relationships on firm performance in Vietnam, Huu and Nguyen (2013) find that there is a negative impact of short-term credit financing relationship on firm performance. They argue that theoretically, when firms establish strong short-term credit financing relationships, they have opportunity to achieve more effectively short-term business activities; thereby this affects firm performance on overall. Hiraki *et al.* (2003) use the ratio total main bank loans to total liabilities to estimate their models and find that this variable has negative relationship to firms' performance.

Conclusions

All the SMEs in Mombasa operate have multiple banking relationships with at least 2 - 4 banks. The SMEs get involved in multiple banking relationships strategically and most importantly to take advantage of multiple credit facilities and the diverse banking services offered at the different banks.

The higher the number of banks with which SMEs operates business accounts with, the better the business performance. Business growth and profitability are correlates of multiple business accounts in diverse banking institutions. Business accounts are the gateways through which SMEs establish initial relationships to open up opportunities for other banking services to be offered, thus business accounts may mediate the interaction between other aspects of multiple banking and performance of the SMEs.

Diverse off-balance sheet items, specifically credit guarantees improves the financial leverage of SMEs thus enabling them perform business contracts that have huge financial implications. As a result, there exist positive relationships between use of diverse bank credit guarantees with SME growth and profitability.

SMEs do value relationship banking services and perceive these services to be important contributors to the performance of their business. Because of the value attached to relationship banking services, the SMEs have established close contacts with the relationship mangers of the banks they patronage from whom they receive business/entrepreneurial advice that probably have a greater contribution to the growth and profitability of their businesses. Overall, SMEs that have more and stronger relationship management services from many banks perform better compared to those that receive less and weak relationship management services from fewer banks.

Credit financing is one of the strongest variables that contribute to strong multiple banking relationships. This factor constitutes two main sub-variables, multiple short-term and long-term financing relationships. This study concludes that if SMEs establish multiple short-term and long-term financing relationships with many banks, their performance will reduce I terms of growth and profitability. Although having multiple credit financing relationships may help SMEs solve hold-up problem both in the in short-term and long-term, they have to accept higher borrowing cost in trade-off. The effectiveness of SMEs that establish more multiple credit financing relationships is not significantly better than those which establish fewer of such relationships. This explains why multiple credit financing relationships correlate negatively to with SME performance

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