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Structural and relational influences on credit availability to small and micro-enterprises: Evidence from Uganda.

[1,] Ass. Prof. Julius Kakuru, [2,] Dr. Alfred Nuwagaba, PhD
[1,] Principal, Multitech Business School Uganda
[2,] Deputy Vice Chancellor, Cavendish University Zambia

ABSTRACT: *We investigate the extent to which commercial bank's structural and relational factors affect on credit flow to small and micro enterprise (SME) clients in a developing country context. Drawing on several theoretical perspectives, including organizational sociology, relationship banking, and corporate entrepreneurship, we offer an integrated framework to explain how loan officers strive to balance their banks' requirement for efficiency and risk reduction in credit disbursement, on the one hand, and SMEs' need for credit in order to grow their businesses, on the hand. By serving as intrapreneurs loan officer may achieve an optimum balance between these seemingly contradictory goals, thus enhancing the flow credit to SMEs and increasing efficiency and reliability in bank lending. We tested these ideas using survey data obtained from a sample of 144 commercial bank loan officers in Uganda. From the data set, an exploratory factor analysis yielded four structural and relational factors affecting credit flow to SMEs: (a) formal interaction mechanisms, (b) informal interaction mechanism, (c) flexibility of lending guidelines, and (d) cultural norms of borrowers. Results of a logistic regression analysis show that two of these factors-informal interactions in bank hierarchy and cultural norms-were significantly related to the likelihood of credit availability to SMEs.Implication for managerial practice and research are offered.*

KEYWORDS: *microenterprises, relationship banking, organizational sociology, corporate entrepreneurship, SMEs*

I. INTRODUCTION

It is generally agreed that entrepreneurship plays a key role in promote economic growth and development in booth developed and developing countries(.e.g.,) Day, Reynolds, and Lancaster, 2006; Leibenstine, 1968; Schumpeter, 1934). However, small and micro-enterprises (SMEs)-firms with seven employees or less _developing countries face major obstacles, such as lack of access to credit ,which may threaten their survival and viability (Arinaitwe,2006; Kuzilwa,2005; Trulsson, 2006). This is so because SMEs in developing countries typically lack the necessary documentation for assessing credit worthiness using conventional commercial banking procedures and standards. These firms typically operate in the formal sectors of the economy, relying on their local networks, rather than financial markets for funding their business operations. When these seek commercial bank credit, loan officers bear a heavy burden of assessing their credit worthiness using any available information at their disposal, while trying to comply with established bank lending procedures.

Thus, loan officers need ton deftly balance the seemingly contradictory goals of achieving efficiency in the lending decisions, on the one hand, and increasing credit flow to clients that, by conventional standards, might be deemed ''unthinkable'' and, therefore, potentially pose high credit risk. By conforming to formal rules and standards for assessing creditworthiness, loan officers may better serve the organizational goals of efficiency and risk reduction, butmake less credit available to potential SME clients. One the other hand, by exercising greater flexibility and relying on informal ad-hoc approaches for making lending decisions , the loan officers may increase credit assess to SMEs, but may incur greater credit risk and lower efficiency and reliability in lending decisions. We argue that by serving as corporate entrepreneurs or intrapreneurs (Pinchot, 1985), loan officers may achieve an optimum balance between these seemingly contradictory goals, thus simultaneously enhancing the flow of credit to SMEs and increasing efficiency and reliability in bank lending. Accordingly, n this paper we sought to empirically document the experiences of loan officers in extending bank credit to SMEs in Uganda. Specifically, we identify the structural and relational factors affecting credit flow to SMEs from the perspective of loan officer who play crucial role in commercial bank lending decisions. We show how, in their roles as ''brokers'' or Boundary spanners'' between their organizations, and their SME clients, loan officers in developing country context such as Uganda at times have to deviate from the formal bank lending mechanisms and guidelines and instead resort to informal communication channels within the organization and/or their personal or social networks in order to generate the information needed to determine credit worthiness of particular clients. To the extent that they are able to tap into broader sources of information for making lending decisions, they may both their organizations and their clients better, thereby helping to create greater value for both. Uganda provides a natural context for empirically testing these ideas. The country has undertaken vigorous privatization and market liberalization under the structural adjustment programs of the so-called ''Washington Consensus.'' One outcome of this policy has been to spur local entrepreneurship and foster economic development. Arecent report by the Global Entrepreneurship Monitor placed Uganda among the top 50 countries that are friendly to small business (Lewis, 2007). Recognized as the ''entrepreneur's paradise,'' Uganda ranks among the top countries with individuals aged 18-64 who are active in launching and running new enterprises (Fast Company,2004). On the other hand, Bugaari (2008) has noted that ''most business in Uganda die in infancy.'' The reason for the high failure rate in Uganda include ''lack of entrepreneurial skill, limited access to information and market opportunities, and affordable business development services and lack of finance (Bugaari, 2008). Additionally in their study on the financing of small and medium enterprises in Uganda, Kasekende and Opondo (2003) highlighted the micro economic and firm-level reforms that are required to ease the SME funding gap in Uganda. According to another study conducted on East African MFIs by Rutherfor and Mugwanga (1996), about 25% OF MFIs clients desert these institutions annually, a situation mainly attributed to the rigid bank organizational structures. Given these and other challenges, systematic examination of the structural and relational factors affecting the flow of credit to SMEs is warranted.

The rest of the paper is structured as follows. In the next section, we provide a synthesis of the theoretical perspective used to explain the supply of credit to SMEs. Then we describe our research methodology, including data collection, variable operationalization and measurement, and analytical approach. We report our findings and discuss implications for research and practice. Finally, in the conclusion section, we high light some limitations of our study, which provide opportunities for future research.

II. THEORETICAL BACKGROUND AND IMPORTANCE OF THE STUDY

Three theoretical perspectives provide the integrated framework for our empirical study of the determinants of credit flow to SMEs: (a) Organizational sociology, (b) relationship banking and, (c) corporate entrepreneurship. Organizational sociology emphasizes the ''structural'' aspects of bank organization, as a professional bureaucracy (e.g., Weber, Mintzberg, 1979). It focuses on the use of authority to structure intra organizational relationships and analyze the extent of formalizing in facilitating information flow across hierarchical levels. Relationship banking describes the use of informal behavioral norms as the basis for structuring and maintaining bank-client interactions under conditions of uncertainty (Berger &Udell, 1995). Such informal behavioral norms include solidarity, flexibility, and maturity of information exchange between the contracting parties (Kauffman & Stern, 1988; Macneil, 1980). These behavioral norms serve to complement (and may even supplement) the formal procedures and mechanisms governing interactions between exchange partners. Thus, in situations, such as a developing country context, where exchange are mediated more by social and informal networks rather than market forces,relationship banking can serve as an effective mechanism of credit supply to SMEs.We draw on Pinchot's notion of intrapreneurship to explain how loan officers mediate the bank-client relationship in order to better serve their clients and generate competitive advantage for their firms.Although we describe each of these theoretical perspectives separately for clarity,in practice they are interlinked.

2.1 Organizational sociology. Setting goals and solving agency problems in bank lending decisions requires an appropriate organizational structure.Organizational structure describes the mechanisms,such as coordination,control,formalization and centralization of authority that top managers use to govern and regulate exchanges(Burns&stalker,1961;mintzberg,1979;weber,1947).These scholars also view the organizational structure as a configuration of hierarchical exchange relationships governed by the use of formal rules and standard operating procedures,which are necessary for achieving organizational efficiency,effectiveness and predictability.

Furthermore, according to Mintzberg (1979), structure reflects the degree of centralizationof decision-making, formalization of rules, authority, communication, compensation, and standardization of work processes and skills, and /or control of output. In Mintzberg scheme, banking organizations are an example of professional bureaucracies" rather than machine bureaucracies. From these perspectives,structure can then be seen as an influencing factor in the flow of authority from top management to loan officers,in choice of the communication channels used in making lending decisions and in the design of the compensation plans for loan officers.According to Jensen and Meckling(1979) organizational structure enhances information processing and provides a framework for defining expectation and designing compensation systems to generate desired levels of individual and organizational performance.

The design of the structure also determines whether the organization is mechanistic or organic in nature (Burns &stalker, 1961; Mintzberg, 1979). A mechanistic structure emphasizes a high degree of formalization and centralization of authority.This type of organizational structure is suitable for routine of task, standardization of operations, and reliability and predictability of performance outcomes. Accordingly, a mechanistic organization is suitable for standardized tasks and functions where rules, regulations and standard operating procedures are used to manage under conditions of low environmental uncertainty(Burns&stalker,1961;Lawrence&lorsch,1967).In contrast, organic organizations are characterized by tasks that requires unique or special skills, knowledge and experience ,and emphasize continuous exchange of information with others in order to resolve non-standardized situations(i.e., uncertainties) that occur in decision making. This type of organizational structure promotes network-based, relational exchanges, whereby the use of informal communication and coordination mechanisms is emphasized in order to tap knowledge from all functional areas of the organization. In this type of organizational structure, members tend to prefer the use of lateral to vertical communication channels as the means for information sharing across the organization.

In the context of credit decision making in the banks under study, loan officers have to deal with the complex tasks of relating with and evaluating the credit worthiness of a diverse population of borrowers. In this task they have to use a set of formalized lending policies, procedures and guidelines and communicate information related to lending decisions along clearly defined lines of communication. This necessitates a clear design of structures, to enable the loan officer to handle lending decisions to SMEs in a manner consistent with the expectations of the bank. The elements of structure, discussed above are necessary if any organization is going to meet its goals and objectives.Banks specifically needs appropriate organizational structures to deliver credit to small and micro-enterprises.These structures should enable the banks to minimize the risks due to adverse selectionand moral hazard while offering convenience to the SMEs that seek credit.

1.2. Relationship banking: relationship banking describes the approach to structuring and managing exchange relationships between the bank and its clients in order to gather and process" soft" or "tacit" information needed for making strategic decisions(berger&udell,2002).This approach to banking is distinguished from the "transactions-based" approach of conventional banking, which is associated with use of hard' information at time of loan origination"(Berger&Udell,2002:F38).The transaction-based approach is often used for gathering and processing information based on objective criteria, such as financial ratios, collateral ratios, and credit scores(Berger&Udell,1995)

If banks are to develop relationships with SMEs that address the information asymmetry and agency problems in lending transactions, then there should be structures that promote effective delegation of authority to loan officers who deal with the SMEs (Berger&Udell, 2002).The structure should also ensure that the interface between the banks and the SMEs is maintained in order to facilitate relationship lending. The hierarchical structure of contracting is supposed to be the panacea for efficient monitoring in order to minimize the impact of the agency and incentive problems that any result from delegating authority to credit officers who deal with the SMEs in the lending transactions. The focus of the arguments is that bank structure affects the lending methodology adopted by the banks in serving the SMEs and hence needs to be carefully designed. Accordingly,the banks need a structure that allows for a hierarchy of contracts to exist between SME and loan officers, loan officers and senior management, senior bank management and shareholders, creditors and regulators, in order to increase credit flow to the SME.

1.3. Intrapreneurship. Pinchot (1985) coined this term to describe the extent to which large, established corporations promote innovation and entrepreneurship by enhancing the innovative abilities of their employees, and encouraging them to develop new ideas into commercially viable products or services. In this role, the individual employees, or intrapreneurs" as serve as champions "in the innovation process, from idea development to product/service commercialization (Kuratko,montagno&Hornsby,1990).Proponents of this concept argue that intrapreneurship attempts to resolve one of the dilemmas faced by large organizations,between maintaining established systems, standards and mechanism in order to realize their corporate mission and strategic goals, on the one hand, and being flexible and innovative in order to proactively adapt to changes in the external environment(Nielsen,peters&hirsrich,1985).accordingly, large organizations that have built a reservoir of intrapreneurial capacity may not have to choose between flexibility or efficiency as strategic goals;they are able to realize both goals simultaneously(adler,goldoftas,&Levine,1999).Intrapreneurship enables organizations to be adaptive and adaptable simultaneously(Gibson&Birkinshaw,2005;weick,1979);thus.it may be a critical source of sustainable competitive advantage insofar as it valuable,rare,not easily imitable,and its embedded in the organization structure,culture,and systems(e.g,barney,1991;lado,boyd&wright,1992)

According to Nielsen et al.(1985),intrapreneurship enables established organizations to effectively address several problems,including:(a) the failure to integrate activities that are not deemed central to the organization mission;(b) the tendency to ignore the flexibility/innovation needs of these peripheral functions and activities; and (c) the tendency to compromise rather than adopt and incorporate best practices throughout the organizations,By encouraging loan officers to be intrapreneurs in structuring and maintaining their relationships with SMEs clients,banks are able to serve new(and previously ignored) market niches and, therefore serve their central mission better.As intrapreneurs, loan officer enable their organizations to become innovative and competitive by exploring different new ways to serve their customers better.They are also to avoid the tendency to compromise serving their clients,just for the sake of conforming to rigid bureaucratic rules and procedures governing lending decisions.Rather,using these rules and procedures as broad policies,they reinforce any internally generated information with externally sourced information by tapping into their personal and/or social networks,in order to provide a more holistic assessment of their client's credit worthiness.

This overview of the three theoretical perspectives provides an integrated framework for our empirical investigation. In the following section, we empirically document the structural and relational factors affecting commercial bank credit flow to SMEs in Uganda. To the extent possible, we utilize both qualitative data obtained via semi-structured interviews, and quantitative data obtained via a survey questionnaire administered to a sample of loan officers of banks in Uganda.

III. RESEARCH METHODOLOGY.

The study is part of a larger research project examining a wide range of organizational factors and clients characteristics that enable(or constrain) the flow of commercial bank credit to SMEs in developing countries context(Uganda).the study utilized both qualitative and quantitative methods for data collection and analysis. The qualitative methodology consisted of semi-structured, in depth interviews of a sample of loan officers regarding the decision making process used in commercial bank lending. The interview were designed to elicit responses from the loan officers on how bank organizational contextual (including structural and relational) influence credit flow to SMEs clients. Through the interviews, as well as personal observations of the loan officer-client interactions, the researchers were able to develop a better understanding of the decision making process used in bank lending.In the relationship banking literature, researchers typically rely on secondary data for testing relationship among the variable of interest (e.g. Berger &Udell 1995, 2002; Petersen&rajan, 1994). However, in a developing context, such as Uganda, such data are not available for these purposes. In fact, the phenomenon of demand and supply of bank credit to SMEs in Uganda (and sub-Saharan Africa generally) is under researched .To the extent that it is examined, researchers have mainly focused on the macro-economic influences of credit flow.

Thus, for the quantitative methodology for this study, we utilized primary data obtained via a questionnaire survey administered to a purposive sample of loan officers at eight banks located in Uganda. Since there are no established scales for tapping the study variables, we created new scales, based on a review of the available literature and used the interview data to help develop and refine the variables. The triangulation of both qualitative and quantitative approaches (Jick, 1979 enables a holistic investigation and understanding of the phenomena of interest. In this study we relied mainly on the quantitative methodology in order to address the objectives of the study.

We used a different sampling strategy firm that used in conventional survey research based on sampling frames that are relatively well known or easily discernible.In the case of the present study context,we were unable to determine the full scope of the sampling frame,as there is no data base listing the loan officers(our target respondents) in all the commercial banks in Uganda.Thus,an estimated sampling frame of six hundred potential respondents, involving three hundred loan officers and three hundred borrowers was targeted. The SME borrower and loan officer respondent were allocated to the participating institutions using quota sampling with each bank allocated seventy five loan officers and borrowers respectively. The individual loan officers were then identified using the snow balling approach utilizing the contracts that that been identified during the qualitative study.The final sample consisted of 144 loan officers who completed the questionnaire survey.

3.1 Measures : Dependent and independent variables. The dependent variable for the study-credit availability-isa binary measure, indicating the likelihood that an SME client would obtain from a given commercial bank (Anthony,2005;berger&Udell 2002).The independent variables were measure using a set of scales designed to tap loan officers 'experiences regarding the organizational context in which lending decisions were made. These items were measured on Likert-type scales ranging from strongly disagree(1) to strongly agree (5).An exploratory factor analysis (EFA) was performed in order to identify distinct factors, reflecting structural and relational influences on credit availability to SMEs.The factor analysis, using principal component procedure with varimax rotation yielded four underlying factors that were labeled:(a) formal interaction in the bank hierarchy(formal hierarchy);(b) informal interaction in hierarchy(informal hierarchy),(c) flexibility of lending guidelines(lending guidelines);and (d) sensitivity of the lending guidelines to client's cultural norms(cultural norms).These factors accounted for about 50% of the variance in credit supply to SMEs.The factor analysis revealed that formal(structural) interaction accounts for 26.14% of the variance, informal interaction accounts for 9.21%,flexibility of lending guidelines accounts for 8.10% and cultural norms accounts for 6.23%.All factors had Eigen values greater than one. The average summated scores of the items loading on each factor was computed and used in subsequent analysis (Table 1)

Table 1: Exploratory Factor Analysis of Bank Structural and Relational Factors-Principal Components with Varimax Rotation[a]

	Component			
	1: Formal interaction in hierarchy	2: Flexibility in lending guidelines	3: Informal interaction in hierarchy	4: Sensitivity to cultural norms
1. The institutional structure provides good channels of interaction and feedback about credit decisions	.895			.100
2. I obtain necessary support from my supervisor about credit decisions I make	.807		.184	
3. The lending guidelines facilitates teamwork and information sharing with my colleagues	.807	-.133	.134	
4. The structure for appraisal and approval of loans enables me to get feedback by consultation from all levels of my superiors	.730	-.204	-.223	.146
5. Lending structures facilitate internal formal contacts within the institution for flexible decision making about credit	.717	-.116		
6. The institutional lending procedures help me to monitor the performance of the loan				.422
7. The lending structure supports good delegation of work to me by my superiors	.703	-.253	.241	
8. The institutional lending guidelines provide a realistic and practical frame work for assessing client's request	.612			
	.598	-.143	.518	
9. The structure for appraisal and approval of loans respects my opinions	.586		.486	.209
10. Iam forced to divert from lending guidelines in dealing with the request	-.114	.798	-.335	
11. I adjust the institution's lending guide lines to suit my clients' needs	-.181	.771		
12. I receive directives from superiors to implement loan decisions which are contrary to my professional advice	-.420	.630		
13. The lending structure has informal outside contacts that facilitate decision-making about credit	.443	.551		.102
14. The lending guidelines deprive me of flexibility in handling the customer's requests				
15. Institutional lending guidelines make the task of dealing with the		.212	-.808	-.266

client's request easy				
16. The lending guidelines make it easy for me to deal with cultural norms of each client	.589		.602	.119
17. Lending guidelines take into account of the cultural norms of individual clients	.124			.863
			.198	.837

Component	Initial Eigenvalues			Extraction sums of Squared Loadings			Rotations
	Total	**% of variance**	**Cumulative %**	**Total**	**% of variance**	**Cumulative %**	**Total**
1.Formal Hierarchy	6.311	37.121	37.121	6.311	37.121	37.121	5.509
2.Flexibility of LG	2.138	12.578	49.699	2.138	12.578	49.699	2.146
3.Informal Hierarchy	1.791	10.534	60.233	1.791	10.534	60.233	1.858
4.Cultural Norms	1.091	6.419	66.651	1.091	6.419	66.651	1.817

Source: Researcher, 2014

1.4. Control variables. to control for potential confounding effects in the relationship between the independent variables and dependent variable,we included several variables in the study.These variables reflect the sex,educational attainment,age and the personal goals of the respondents.Prior research in the U.S.(e.g;Berger&Udell,1995) and U.K.(Day et al;2006;cowling &westhead,1996) banking contexts suggest that these variable might account for differences in bank credit availability to individual or SME borrowers(Kuzilwa,2005;fafchamps &minten,2002).

3.3 Analyses : Since the dependent variable is a binary measure,we used logistic regression as the relevant analytical technique(e.g,studenmund,2006).Accordingly, the dependent variable, credit availability(with 1 indicating credit availability; zero ,otherwise) is modeled as a probabilistic function that takes the form of a logistics distribution. Additionally we employed the backward binary stepwise regression(conditional)" procedure available in the SPSS software package(Version 16) in order to assess the relative effects of the independent variables on the dependent variable(pend et al.;2002).The functional form of the logistic regression is denoted by the following equation:
Prob. (Credit availability) =f {b 1*Formal, b2*informal, b3*cultural Norms);

(c1*sex, c2*education, c3*age, c4*personal Goals)}

In this equation, b1-b3 represents the coefficients for the independent variables, and c1-c4 represents the coefficients for the control variables. Using step-wise procedures, all of the control variables were entered as a block in the first step. Followed by the three independent variables as a group.In the backward binary stepwise conditional procedure,all of the variables(control variables and independent variables) were entered on step 1,and all except the variable,formal hierarchy,were entered,in order to assess the relative effects of the remaining variables on the dependent variable.(Peng,Lee,&Ingersoll,2002)

IV. RESULTS AND DISCUSSION

Table2 presents the descriptive statistics and correlations of the study variables. Also include the table are the reliabilities of the three independent variables (formal hierarchy, informal hierarchy, and cultural norms).The variable ''flexibility in the bank lending guidelines'' was dropped because it did not exhibit a satisfactory reliability.

Table 2: Descriptive Statistics

	Mean	**Std. Deviation**	**1**	**2**	**3**
1.Credit availability	0.500	0.502			
2.Sex of respondent	1.53	0.501	.042		
3.Educational level	2.80	0.687	.375**	.016	
4.Age of the respondent	2.35	0.805	.052	.022	.228**
5.Personal goals	3.10	0.533	-.183	.145	-.101
6.Formal Hierarchy		0.670	-.183*	.009	-.105
7.Informal hierarchy		0.537	.052	.164*	-.087
8.Cultural norms	3.14	0.537	-.104	.086	-.087

Source: Researcher, 2014

N=144 for all variables, except educational level (N=142)

**p<0.01(2-tailed);*p<0.05(2-tailed)

Results of the logistic regression analysis are given in Tables 3 and 4. The results show that two of the control variables (educational attainment and personal goals) were significantly related to credit availability. These findings suggest that loan officers with higher education level (i.e., at least adiploma) were more likely to disburse credit to SME clients. On the contrary, the significant negative relationship between personal goals and credit availability might suggest an incentive misalignment (Berber&Udell, 1995). The demographic characteristics, sex and age of the loan officers were not significantly related to credit supply to SMEs

Table 3: Logistic Regression Analysis of Determinants of Credit Availability.

Variables	B	Std. Error	Wald	d.f	Sig.(P)
Control variables					
Sex respondents(q 1)	0.294	0.402	0.536	1	0.464
Educational level(q 2)	1.529	0.396	14.95	1	0.000
Age(q 3)	-0.156	0.254	0.378	1	0.539
Personal Goals(q4)	-1.034	0.464	4.962	1	0.026
Independent variables					
Formal Hierarchy	-0.246	0.362	0.464	1	0.496
Informal hierarchy	1.615	0.600	7.257	1	0.007
Cultural Norms	0.889	0.682	1.701	1	0.192
constant	2.582	2.183	1.399	1	0.237

Source: Researcher, 2014

Ominibus test: Chi-square=34.447; d.f. =8; p<0.000)

Hosmer&Limeshaw: Chi-square=13.81; d.f. =8; p<0.055

Cox&Snell R-Square: 0.230

Nagelkerke R-Square: 0.307

N=144 for all variables, except for educational level (N=142)

Table 4: Logistic regression analysis of determinants of credit availability-Backward stepwise (conditional)

Variables	B	Std. Error	Wald	d.f	Sig(p)	Exp(B)
Step 1						
Control variables						
Sex of respondents(q1)	0.294	0.402	0.536	1	0.464	1.342
Educational Level(q2)	1.529	0.396	14.95	1	0.000	4.615
Age(q3)	-0.156	0.254	0.378	1	0.539	0.856
Personal Goals(q4)	-1.034	0.464	4.962	1	0.026	0.356
Independent variables						
Formal hierarchy	-0.246	0.362	0.464	1	0.496	0.782
Informal hierarchy	1.615	0.600	7.257	1	0.007	5.029
Cultural Norms	0.889	0.682	1,701	1	0.192	0.411
Constant	2.582	2.183	1.399	1	0.237	0.027
Step 2						
Control variables						
Sex of respondents(q1)	0.298	0.401	0.552	1	0.458	1.347
Educational Level(q2)	1.571	0.395	15.792	1	0.000	4.813
Age(q3)	-0.192	0.246	0.609	1	0.435	0.825
Personal Goals(q4)	-1.077	0.459	5.511	1	0.019	0.341
Independent variables						
Informal hierarchy	1.661	0.594	7.812	1	0.005	5.263
Cultural Norms	-1.155	0.560	4.255	1	0.039	0.315
Constant	-2.609	2.197	1.410	1	0.235	0.074

Source: Researcher, 2014

Omnibus test: Step 1:Chi-square=37.192; d.f. =7; $p<0.000$

Step 2: Chi-Square=36.724; d.f. =6; $p<0.000$

Hosmer &Limeshaw Step 1: Chi-Square=34.447; d.f. =8; $p<0.000$

Step 2: Chi-square=24.320; d.f. = 8; $p<0.002$

Cox & Snell R-Square Step 1: 0.230; Step 2:0.228

Nagelkerke R-Square Step 1: 0.307; Step 2: 0.304

N=144 for all variables, except for educational Level (N=142

The results of the relationships between the structural and relational factors and creditavailability are quite interesting. The structural factor-formal interaction in the bank hierarchy (Fhierarh) was not significantly related to credit availability. In other words, formal (structural) interaction did not increase the likely hood that a commercial bank loan would be made available to a particular SME borrower. The results of our qualitative analysis based on bank interviews of loan officers also confirmed this finding the interviews acknowledged that the use of formal channels of communication facilities efficient and effective decision making, potentially enhancing credit flow. However, they also pointed out situations in which the reliance on formal (structured) interaction s reduced the likely hood of extending credit to SME to clients. The situations include (a) the delay caused by lengthy consultative processes in decision –making, and (interference by the senior officers in the roles of the loans officers. Delays were found to be an outcome of the collegial decision-making processes where loans officers have on authority to finalize credit decisions but have to refer them to branch and head office credit committees. As the following case indicates, committees do not sit regularly and the loan officers themselves sometimes fail to submit loan applications using the first-come- first serve principle. The delay is further caused by the requirements that the borrowers submit lot of documents that have to be duly certified by different government agencies which are at times slow in fulfilling their responsibilities. The case below demonstrates the loan officers' frustration resulting from delayed credit decisions:

''Clients require loans that are time bound. What happens is that it is a requirement that a bank committee approves loans. This sometimes creates a delay in the approval of loans to clients because committees on credit have plenty of work to do and loan officers sometimes may not work on the principle of first come first serve. Loan officers sometimes just pick out what is to be presented to the committee depending on their priorities. When there are cases that require to be presented to the Head Office, they get there after some weeks 'or days' delays. Because client requests where time sensitive, the customer may not benefit and may actually not take the loan if it is approved late, as it may no longer serve the purpose of the borrower. Sometimes the delay is caused by poor documentation on the side of the clients. This arrangement of proper documentation may take about five days to finalize. For loans that are supposed to be mortgaged, the title must be checked and caveats placed before the loan is disbursed. When the papers are sent to the lands office for the title to be finalized, it may even take up to two months. The required especially if large, may also cause delays because of the processes involved from inception to award/approval. These delays affect our clients who blame us for disrupting their plans''.

In addition to the delays in considering the client s' requests , hierarchy was found to stifle the work of the credit officers through interference by senior officers in the loan officers 'work This usually happens when the borrower involves influential members in the society who have capacity to manipulate the hierarchy for their own benefit as the case below illustrates.

''A client approached me in need of a loan. After important information /details were availed, the client left. However, after 30 minutes, I received aphone call from a top management official inquiring whether the case was ready. I was worried because if I failed to work on that request which was an order from above, theni would not receive my incentive. On otherhand, I had tomake proper analysis to see that the loan given out was a good one. Before any decisions were taken, I had to first ascertain whether there was any security attached to the loan requested for. The whole process was to take about 4-5 days to ascertain correctness of the information providedby the client. I found myself in a very difficult situation because the top official threatened that if the loan was not approved very quickly then I would be fired from my job and yet if the loan went bad, then I would be requested to recover the loan as a form of penalty to me. The loan was extended in record time and to-date it is difficult to recover and I am still suffering the consequences.

The interview findings suggest that, contrary to theoretical expectations from Weberian (1948) sociology, a well–designed organizational hierarchy might not enable efficient bank lending decisions in a developing country context such as Uganda. On the whole, the reliance on structured, formal interaction in lending decisions did not appear to increase the likelihood of loan disbursement to SMEs in this context. The result of the logistic regression indicated a negative (albeit not significant) relationship between formal interaction in the bank hierarchy and credit availability.The relational factor reflecting informal interaction in the bank hierarchy was found tobe significantly and positively related to credit availability. This findingsuggests that the use of informal channels of communication within the banking context might serve as a substitute for (rather than a complement to) formal communication channels in enabling effective decision making relating to credit supply to SMEs. Such channels might enable the collection, processing, and transmission of richer (and perhaps more accurate) information (e.g. Gronroos, 1982), thus increasing the likely hood of disbursing credit to SMEs in a timely fashion. The informal contacts within the bank involve private consultation with managers, especially in cases when the loan officers were convinced that the borrower lacks some minor requirements as spelt out in the lending guidelines. As one of the loan officers stipulate below, informal contacts are used to align client requests with the bank requirements especially, where the client was known to the loan officer or gave an impression of having a bankable proposal:

‘’Of course in some of these cases we ourselves bend the guide lines a little. We can judge some customers to be creditworthy or some can be friends or known to some of us. However, they lack some requirements as stipulated by the guidelines but as loan officers we are convinced of their ability to pay back the loan. In such a case we may go an extra mile to reconcile the client’s details with the institutional requirements. We do this by approaching our managers and discuss the merits of such case so that we can support them in the loan committee meetings’’.

From the interview, it was also found thatloan officers often tapped into their personal networks outside the bank in order to more fully assess the borrowers ‘credit worthiness. This occurred in situations where a loan officer needed to verify the information provided by the borrows in order to mitigate potential risks due to adverse selection and normal hazard (Berger&Udell, 2002). It was also ascertained that loan officers rely on a variety of information sources for this purpose as one of the loan officers stated below:

‘’These borrowers are a bit complicated and may not give you all the information you might need. Sometimes we have to contact the local council officials where they reside to look for genuine information about them. In case of borrowers who are employed we contact the employer. We also informally interact with people at the borrowers’ point of work. Furthermore, as loan officers we depend on an inter-bank network to identify borrowers who may seek credit from different institutions using same securities’’.

In addition to the above, loan officers were found to make personal private incentives to ascertain the trustworthiness of their clients as in the case below:

‘’We have our intelligence networks from which we get information like opinion leaders, Local Council and fellow workers of the borrowers. We have friends working with other financial institutions. These are also people we studied with and exchange information with them about potential borrowers on an informal basis. As credit officers we have devised means of ensuring that we identify good customers because the incentive we are paid depend on it. We socialize in order to relate with people who have information about our potential borrowers and in a relaxed mood, we pick a lot of information from them’’.

In addition , when the variable formal hierarchy was removed , using the procedure of lack of backward stepwise binary(conditional) regression , the variable cultural norms (lendstr1) became significant (albeit negative) in explaining credit supply to SMEclients (see table 4) .At first blush ,this finding is contrary to expectations concerning relationship lending within a developing country . In this context, one would expect that the more sensitive the bank lending guidelines were to the local culture values and the norms (Hostede, 1980), the greater the likelihood of credit supply to SMEs. One possible interaction of this finding is that as professionals with higher education attainment, the loan officers were probably mindful about the need to remain deliberative and fair in making lending decisions, thereby minimizing the potential for cronyism and other kinds of favoritism toward culturally similar borrowers. To the extent that this is the case, the loan officers might mitigate the potential of making poor lending decisions through reliance on “preserve social capital”(Portes,1998).However, future research is needed to more fully examine the relationship between this relational factor(among others) and its effect on credit supply to SMEs in a developing country context.

V. IMPLICATION AND CONCLUSIONS

The study offers several implications for research and practice regarding the supply of bank credit to SMEs in Uganda. First, both the survey data and interview data show that, within this context, the role of hierarchyin facilitating credit flow to SMEs might have been overstated. As professional bureaucracies (Mintzberg, 1979), commercial banks tend to emphasize a transaction-based approach to lending. This approach is appropriate for lending to larger, more established clients who can provide the hard information needed for assessing credit worthiness. It is, however not conducive to dealing with SME clients who operate largely within the informal sector of the economy, and may lack the documentation needed to determine credit risk using conventional lending criteria. For these clients, relationship lending is the more relevant approach for extending credit (Berger&Udell, 2002).The results of our quantitative and qualitative analysis provide empirical support for the expectation that the use of informal channels should lead to an increase in credit supply to SMEs(Berger &Udell,1995,2002;Petersen&Rajan,1994).the backward stepwise logistics regression showed that this variable had the greatest weight in influencing credit flow to SME clients. This was the case after controlling for the effects of demographic variables, such as age, sex and educational level of the respondents (loan officers). The interview results also reinforced the finding of the quantitativeanalysis. This finding suggests that the use of informal channelsof communication by loan officers might substitute for formal channels in facilitating credit supply to SMEs. However, more empirical research utilizing a larger sample, spanning bank lending in several national contexts, is needed in order to gauge the extent to which this finding can be generalized.

Additionally , this study provides initial empirical support for the idea that loan officers may function as intrapreneurs in deftly balancing seemingly contradictory demands for organizational efficiency and predictability of bank lending , on the one hand , and the financial needs of SME clients in order to enhance their prospects for survival and growth , on the other. In this role, loan officers may fulfill the function of ‘‘ gap-filling ‘’ and ‘‘input-completion’’, which are critical to fostering economic development (Leibenstein, 1968). They do so by (a)bridging apparent gaps between their organizational requirements for efficiency and predictability and their needs for cash flows;and (b) tapping into their personal and social networks(both inside and outside their organizations) in order to collect the ‘’soft ‘’information needed for determining the extent to which their SME clients are ‘’bankable’’(Yunus,2006). The loan officers might utilize relational exchange mechanisms, emphasizing informality of clients (Macneil, 1980; Kaufman &Stern, 1988). However, we utilize one dimension of relational exchange norms –informal interaction –to document its facilitating credit flow. In future , researchers would need to utilize the full set of relational exchange norms, including solidarity , mutuality of knowledge exchange , planning and consent , role integrity , judicious use of power (to approve or disapprove loan applications), and harmonization of conflict(e.g.,. Kaufman&Dant, 1992; Lado, Dant&Tekleab, 2008) in order to use more fully document their effects on credit flow to SMEs. Insofar as the success of micro-lending has been attributed , in part to reliance on such norms ,(Yunus,2006), future research would need to include microfinance institutions in the survey samples in order to better assess the efficacy of commercial bank lending relative to ‘’benchmarks’’

Whereas the adaptation of informal hierarchy is beneficial to borrowers with credit needs, and to loan officers who may realize their performance targets it might, however, lead to unfavorableconsequences for the organization as critical decisions may be kept away from theformal hierarchy especially top management. Our finding of significant negative relationship between the personal goals of loan officers and credit availability suggests the potential of incentive misalignment in bank lending contexts (Jensen&Meckling, 1976; Williamson, 1988). Therefore, bank managers and executives should put in place guidelines that enable alignment between the goals of their organization s and the personal goals of loan officers in order to realize mutual benefits.At this juncture, it is important to acknowledge some limitations of our study that might provide additional opportunities for future research. First this study took the perspective of loan officers in assessing the structural and relational factors that facilitate (or frustrate) the flow of credit to SMEs.There is a need to incorporate the perspective of 9a) bank supervisors and managers who are ultimately responsible forloan approval (or rejection), and (b) SME clients in term of their extent of satisfaction with the leading process (and outcomes). In the future , researchers would need to investigate both the ‘’supply’’ and ‘’demand’’ sides of the bank lending equation, and to utilize research methodologies, such as hierarchical linear models (Kozlowski&Klein ,2000) in order to better assess the contextual , temporal and emergent processes entailed in the phenomenon of lending to SMEs.Second, our study was limited to assessing the likelihood of credit availability; that is, whether or not credit was extended to SMEborrowers. Although this is a necessary, first order question, we do not know the extentto which the bank credit actually led to improvement of the SMEs' bottom lines or banks' profitability. In the future, researchers would need to empirically document the relationships between the structural and relational factors,and bottom- line outcomes , such as loan repayment rates and/or profitability of SMEs who the loan received the loans.

Third, the finding s of the study pointed to the role of social capital in facilitating credit supply to SMEs (.e.g., Fatchamps&Minten ,2002; Portes, 1998).As these scholars and others have documented , social capital as much as (if not more than)other kinds of ''capital'', such as financial , physical and human capital (Bourdieu,1986)might account for differences in the rates of growth and size distribution of entrepreneurial firms in emerging economies . In future, researchers need to document the role of ''developmental financial institutions'' (George&Prabhu, 2000) in fostering social capital and engendering enterprise development by availing a broader menu of service offering (not just loans) to SMEclients.Finally, this study relied on cross – sectional data for documenting the relationship among the variables of interest. And, the study was exploratory in nature to explicitly test theoretically – based hypothesis. Although great care and attention was paid in developing the questionnaire to establish face validity using inputs derived from bank managers and experts who areknowledgeable about relationship banking in an emerging economy context, there is aneed to utilize longitudinal research design inorder to make stronger causal interfaces of the phenomena of interest. Despite these limitations this study sheds new light on the contextual factors affecting credit flow to SMEs in developing country context, such as Uganda.

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