Quality of financial statements, information asymmetry, perceived risk and access to finance by Ugandan SMEs

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Abstract: The eminence of investigating the relationship between quality of financial statements, information asymmetry, perceived risk and access to finance by Ugandan Small and Medium-sized Enterprises (SMEs) is well understood in the literature. This study is cross-sectional and correlational. Using Ordinary Least Squares (OLS) multiple regression, we determine the magnitude/strength of the relationship between the dependent and independent variables. Data are obtained from a questionnaire survey of a sample of 75 SMEs registered and operating in Kampala, Uganda. The results indicate that there is a significant positive relationship between quality of financial statements and access to finance, and a significant negative relationship between information asymmetry and access to finance. However, perceived risk is not significantly associated with access to finance. The interaction between quality of financial statements and perceived risk is negative, meaning that high-quality financial statements coupled with high perceived risk will result in low access to finance. Overall, our model explains 63.7% of the variation in access to finance.

Keywords: quality of financial statements; information asymmetry; perceived risk; access to finance; SMEs; small and medium-sized enterprises; Uganda.

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1 Introduction

The financing of Small and Medium-sized Enterprises (SMEs) in Uganda has been a subject of great interest to policy-makers and researchers because of their importance to the Ugandan economy. For example, in percentage terms, SMEs constitute over 90% of the private sector businesses in Uganda. They contribute approximately 75% of Uganda's Gross Domestic Product (GDP) and employ more than 2.5 million people. The contribution by SMEs can be jeopardised if they do not access finance. Bank of Uganda (2012), for example, found that lending to SMEs had declined from UGSh406 billion in 2010 to UGSh319 billion in 2011, and this seems to suggest that the problem of access to finance by Ugandan SMEs is worsening. Moreover, the World Bank (2007) revealed that 41.2% of small enterprises were credit constrained and only 24.8% received loans from banks. The survey also indicated that 28.2% of medium enterprises were credit constrained and only 32% had received loans from banks.

Despite efforts to increase SMEs' access to finance such as the reduction of the Central Bank rates from 28.5% in 2011 to 12.5% in 2012 (Bank of Uganda, 2012), the worsening situation regarding SMEs' access to finance in Uganda suggests that initiatives taken by the government to enhance access to finance by SMEs are not having the desired effect. Moreover, the literature is replete with reasons why SMEs' access rates to finance are low. These studies suggest that stringent requirements such high minimum balances (Gibb and Scott, 1986), collateral requirements for loans and insufficient financial disclosure (Okurut et al., 2004), entrepreneurial managerial skills and a poor credit history (Kikonyogo, 2000; Mugume, 2003, Mugume, 2008; Nuwagaba, 2011), costly bureaucratic processes, poor access roads, limited market and location (Demirgüç-Kunt and Levine, 2008) are some of the factors why most SMEs cannot access finance. Nott (2003) also advances a number of challenges of access to finance by SMEs. These are the following: incomplete range of financial products and services, regulatory rigidities or gaps in the legal framework, inadequate information on the banks and the SMEs, elements of infancy, insufficient collateral and returns to counteract the risk exposures.

The multiplicity of factors responsible for sub-optimal access to finance identified in the literature suggest that the search for efficient predictors of access to finance by SMEs is still incipient. Although empirical studies have been carried out to explain the limited access to finance using different predictor variables, the influence of quality of financial statements and information asymmetry on access to finance from a qualitative perspective has been unduly ignored. We therefore argue that the limited access to finance by SMEs could be attributed to quality of financial statements, information asymmetry and perceived risk. We advance this argument based on the following. First, information asymmetry occurs when all relevant information is not known to all parties in an undertaking resulting in adverse selection and moral hazard, thus making it difficult for banks (for instance) to extend finance to the SMEs (Mugume, 2003; Mugume, 2008; Nott, 2003; Griffins, 2002). It can be argued that information quality is palpably assumed for banks if they are to make informed decisions to extend finance. According to Nott (2003) and Alexandar and Nobes (2007), access to finance is impeded by the perceived level of information asymmetry between banks and the SMEs. This suggests that the difficulty of SMEs in accessing finance may be due to managerial incompetence in deciding what information is required and the degree of disclosure. This is likely to increase information asymmetry between the SMEs and the banks, thus becoming difficult on the part of the bank to estimate the degree of risk associated with the SME; thus, the banks hesitate to extend finance. While lenders may wish to screen bad borrowers from good ones, in reality insufficient disclosure may prevent them from getting the relevant information, thus making it difficult to extend finance. According to studies conducted by Von Pischke (1991) and Epstein (2007), quality financial statements should serve as an anchor between the bank and SMEs to predict the level of perceived risk. This means that fair presentation of financial statements reflects transparency in the financial position: cash flows and revenue projections of the SMEs to enhance lending parties' informed decisions to extend finance.

Therefore, the overall objective of this paper is to report the results of the relationship between quality of financial statements, information asymmetry, perceived risk and access to finance by SMEs in Uganda. We believe this paper provides a better trajectory for understanding variances in SMEs' access to credit by considering information asymmetry, quality of financial statements and perceived risk as efficient predictors. In the end, the paper provides more insights into the quality of financial statements that is predicted to reduce the behavioural aspect of viewing SMEs as highly risky borrowers. The objective of this study, therefore, is to determine the role played by the quality of financial statements, information asymmetry and perceived risk in SMEs' access to finance.

This paper's main contribution is that unlike previous studies that have examined the associations between disclosure quality and access to finance (Levitt, 1998), information asymmetry and access to finance (Griffins, 2002) and perceived risk and access to finance (Luong Evans, 2010) based on secondary data, our study is based on the primary data of the perception of SME owners and managers. Since psychological literature indicates there is a close link between perception and action (e.g. Brewer et al., 2007), the findings of an investigation of the relationship between perceived quality of information, information asymmetry and perceived risk and access to finance have important policy implications. For example, if no relation is found, this may imply that SME owners/managers are ignorant of how the quality of their financial statements, perceived risk and information asymmetry affect their chances of accessing finance. In terms of policy implication, this may mean that in order to improve SMEs' access to finance, the SME owners/managers will need some training. On the other hand, if a relationship is found, questions will need to be asked on why SME owners/managers are not doing something about the quality of financial information to improve their chances of accessing finance. The rest of the paper is organised as follows. The next section contains the literature review and hypothesis development. This is followed by a discussion of the research methodology. The penultimate section presents and discusses the results. Finally, we provide the summary and concluding remarks.

2 Literature review

2.1 Quality of financial statements

Claessens (2006) defines credit accessibility as the availability of a supply of reasonable quality financial services at reasonable costs. However, Akudugu et al. (2009) define access to credit as a situation in which an individual has the right, makes an attempt to possess and makes decisions regarding the use of funds in the short term and to repay with interest at a time schedule that is convenient to both the borrower and the lender. According to Akudugu et al. (2009) and Kakuru (2008), a person lacks access to credit if such a person makes efforts to acquire it and fails. Therefore, access to finance can be operationally defined as the flexibility and the ease with which SMEs get money from banks in terms of frequency of loan acquisition.

As argued in Section 1, literature suggests a relationship between quality of financial statements and access to finance. Okurut et al. (2002) suggest that before financial institutions extend credit to borrowers, they need to assure themselves of the viability of the loan applicant and thus they need to see audited financial information presented in the form of statement of comprehensive income and financial position. Levitt (1998, p.82) also states: "The truth is, quality financial statements lowers the cost of finance." Quality financial statements mitigate the level of information asymmetry which reduces perceived risk. Lambert et al. (2007) argue that the quality of reported financial information is influenced not only by the quality of accounting standards, but also by other enterprise factors that affect the demand for and the supply of financial information. It is, therefore, hypothesised that:

Hypothesis 1: Quality of financial statements has a significant positive relationship with access to finance.

2.2 Information asymmetry

In addition, information quality appears to be related to finance access. According to Griffins (2002), inadequate information and low information quality inhibit SMEs from using bank finance. Also, Cavusgil et al. (2008) argued that SMEs that disclose information of higher quality rely more heavily on liabilities, which is consistent with having greater access to external finance. Substantial reduction in the cost of external finance can be realised if SMEs disclose adequate information that relates to the operating activities, collateral and all other details that the banks require to know before extending finance, as this will reduce information asymmetry and perceived risk. Lower cost of borrowing means that the SMEs are better able to afford to borrow because they are better able to afford the repayments. Kassekende and Opondo (2003) also assert that SMEs face higher cost of debt because they are considered to be more risky since bank managers base their lending decisions on the quality of information that is disclosed.

Quality financial information is also important because it mitigates information asymmetry between the management of the enterprise and the banks. Its reduction has desirable effects on the cost of finance (Leuz and Varrechia, 2000; Bushee and Leuz, 2005). Information asymmetry occurs when one group of participants has better or timelier information than other groups. One way to reduce the information asymmetry is by one party signalling to the other party. Signalling is an action taken by the more informed that provides credible information to the less informed. Typically, the source of the information asymmetry is the superior knowledge that managers have about the enterprise's prospects, while the banks comprise the uninformed group which impairs extension of finance (Bushee and Leuz, 2005). According to Kassekende and Opondo (2003), SMEs are so volatile when it comes to default rate, and this is attributed to the high levels of information asymmetry which hinders the bank to accurately calculate the risk exposure and therefore hesitant to extend finance. When banks are not able to access the information needed to measure the level of perceived risk due to information asymmetry, access to finance is hampered (Barth et al., 2003). According to Ball (2006), quality financial statements should serve as an anchor to influence access to finance. This is based on the premise that the reduction of the level of information asymmetry by financial statements enables the bank to estimate the perceived risk and extend finance to SMEs. It is, therefore, hypothesised that:

Hypothesis 2: Information asymmetry has a significant negative relationship with perceive risk and access to finance.

2.3 Perceived risk

Perceived risk theory embraces a behavioural intuitive aspect which appeals and plays a role in facilitating the bank's decision to either extend or not extend finance (Hung and Subramanyam, 2004). The banks have subjective impressions to benchmark lending of finance to SMEs. For example, this may include age, location, type of industry, managerial competence, quality of financial information and information asymmetry. Luong Evans (2010) argued that perceived risk is predicted to be very high for enterprises with low-quality financial statements and high level of information asymmetry, and very low for enterprises that maintain proper up-to-date financial statements and provide qualitative and quantitative financial information that is required by the bank so as to make informed decisions to extend finance. It is, therefore, hypothesised that:

Hypothesis 3: Perceived risk has a significant negative relationship with access to finance.

The discussion above of the relationship between quality of financial information (disclosure), information asymmetry, perceived risk and access to finance is summarised in Figure 1.

Figure 1 The relationship between quality of financial statements, information asymmetry, perceived risk and access to finance

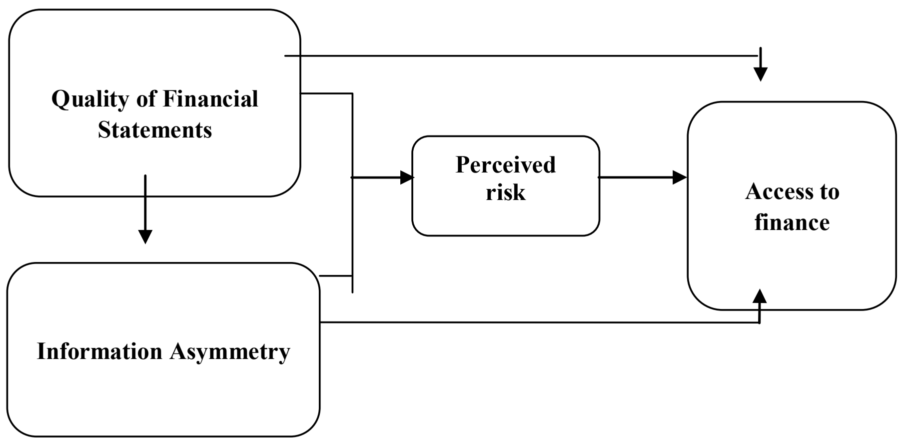

Figure 1 illustrates that quality of financial information facilitates access to finance. The figure also suggests that lower information asymmetry which is brought about by quality of financial statements facilitates access to finance. The figure similarly indicates that quality of financial statements facilitates access to finance by reducing perceived risk. Finally, the figure also shows that information asymmetry and perceived risk interact to enhance access to finance; quality of financial statements and perceived risk also interact to cause access to finance. As a result of the interacting relationships, the following hypotheses were also tested.

Hypothesis 4: The interaction between quality of financial statements and perceived risk has a significant negative relationship with access to finance.

Hypothesis 5: The interaction between information asymmetry and perceived risk has a significant positive relationship with access to finance.

2.4 Control variables

Bartov et al. (2000) suggest that failure to control for confounding variables could lead to falsely rejecting a hypothesis when in fact it should be accepted. This study draws from prior studies and control for company size and industry as they are likely to be important factors informing differences in disclosure quality among SMEs which in turn influence access to finance. For example, there is evidence that the smaller the firm, the less access it has to finance (e.g. World Bank, 2007). This is because smaller firms are more likely to have the resources which they can use as security when they need to access finance. Industry is also likely to be a factor in accessing finance since some sectors, e.g. manufacturing sector firms, are likely to have tangible assets such as plant and equipment compared to service sectors firms. Consequently, we control for company size and industry as they may influence access to finance.

3 Methodology

We obtained a population of 205 SMEs registered in Kampala District of Uganda identified from Uganda Bureau of Statistics (2007). A sample of 132 SMEs was convenient in line with Sekaran (2010). Out of the sample 132 randomly selected SMEs, 57 did not respond. Only 75 responded, thus forming the sample that was eventually used for analysis to generate the findings. A questionnaire consisting of two sections was used to collect the data. The questionnaire comprised two parts. Part A asked about the respondent details and company characteristics and part B was intended to measure access to finance, quality of financial statements, information asymmetry and perceived risk. The respondents were requested to indicate the extent of their agreement with a series of questions on a five-point Likert scale (Raaijmakers et al., 2009). A Likert-scale questionnaire, designed to measure the opinion or attitude of a respondent (Burns and Grove, 2009), was utilised to obtain self-reported information (see Appendix A). A survey was adopted as the most appropriate method of data collection, and previous research supports the reliability and validity of the self-report measures (Brush and Vanderwerf, 1992; Lechner et al., 2006). This approach consists of a selection of key information providers by virtue of their position, knowledge and information available (McEvily and Marcus, 2005). Data were cleaned according to recommendations by Field (2009).

3.1 Model

The following multiple regression equation was estimated to determine the relationship between the dependent and independent variables:

$$ATFI = \beta_0 + \beta_1 QF + \beta_2 INAS + \beta_3 PRK + \beta_4 SIZE + \beta_5 INDS + \varepsilon_j .$$

The variables are as defined in Table 1.

Table 1 Measurement and definition of the variables included in the regression model

Variable(s)		*Measurement*	*Definition*
ATFI	Access to finance	Respondents' mean rank of the ten items of information included in the questionnaire on a five-point Likert scale	The flexibility and the ease with which SMEs get money from banks in terms of frequency of loan acquisition (Claessens, 2006; Akudugu et al., 2009)
QF	Quality of financial statements	Respondents' mean rank of the 21 items of information included in the questionnaire on a five-point Likert scale	The extent to which accounts/ financial statements prepared are perceived as relevant, reliable, understandable, accurate and comparable (Nkundabanyanga et al., 2013)
INAS	Information asymmetry	Respondents' mean rank of the 16 items of information included in the questionnaire on a five-point Likert scale	When all relevant information is not known to all parties in an undertaking resulting into adverse selection and moral hazard (Nott, 2003; Griffins, 2002)
PRK	Perceived risk	Respondents' mean rank of the ten items of information included in the questionnaire on a five-point Likert scale	The behavioural aspects of viewing SMEs as highly risky borrowers (Epstein, 2007; Von Pischke (1991)
SIZE	Company size	Size is a dichotomous variable: 1 if it is a medium-sized enterprise; otherwise 0	
INDS	Industry	Industry a dichotomous variable: 1 if it is a manufacturing enterprise; otherwise 0	
ε_j	Error term		

4 Results

4.1 Descriptive statistics

Means and standard deviations are generated so as to summarise the observed data because according to Field (2009), means represent a summary of the data and standard deviations show how well the means represent the data. The main purpose is to establish whether the statistical means are a good fit of the observed data (Field, 2009). The means and standard deviations of all the dimensional constructs are summarised in Table 2.

The descriptive statistics in Table 2 indicate that the mean rating of the statements put to the respondents meant to measure whether SMEs' regularly accessed finance is 2.212

out of a maximum of 5. This suggests that on average, the SMEs do not regularly access finance. The minimum score of 1 and a maximum of 3 out of a possible 5 also confirm that access to finance by SMEs is low. Among the independent variables, the results indicate that the mean score for the quality of financial statements is 2.4745. This figure is close to the median of 2.4905, suggesting that more than 50% of the respondents believe that the quality of financial statements is low. When it comes to information asymmetry, the average is 3.38, whilst the minimum and the maximum are 2 and 5, respectively. This suggests that SMEs believe that there is information asymmetry between the SMEs and the banks. In terms of the perceived risk, the mean and median are 2.6982 and 2.7273, respectively.

Table 2 Descriptive statistics ($N = 75$)

Variables	*Mean*	*Std. dev*	*Median*	*25%*	*75%*	*Min*	*Max*	*Skewness*	*Kurtosis*
Access to finance	2.212	.21931	2.2000	2.1000	2.3000	1.60	3.00	.672	2.711
Quality of financial statements	2.4745	.46553	2.4905	2.2524	2.8524	1.0	4.00	–.791	.702
Information asymmetry	3.3800	.72236	3.2857	2.9357	3.9143	2.00	5.00	–.096	–.100
Perceived risk	2.6982	.54712	2.7273	2.3636	3.0000	1.36	4.09	.206	.353
Size	.44	.500	.00	.00	1.00	0	1	.247	–1.993
Industry	.28	.452	.00	.00	1.00	0	1	1.000	–1.028

The control variables that were collected from the questionnaire relate to the size and industry as discussed before. In terms of size, the SMEs were divided into 'small' and 'medium'. A 'small' SME was defined as that with a turnover of up to UGSh50 million and 'medium' if it had a turnover of above UGSh50 million. According to this classification, 28 or (37.33%) qualified as 'medium' SMEs and the rest, 47 or 62.67% fall under the 'small' SME category. In terms of the industry, the results suggest that 52 (or 69.33%) of the SMEs are manufacturing enterprises and the rest, 23(or 30.67%), are service enterprises.

4.2 Correlation analysis results

To examine the relationship between the study variables, Pearson correlation tests are carried out. The bivariate table (Table 3) shows the results of the tests.

Table 3 Correlation results

	Variable	*1*	*2*	*3*	*4*	*5*	*6*
1	Access to finance	1.000					
2	Quality of financial statements	–.315**	1.000				
3	Information asymmetry	–.024	–.636**	1.000			
4	Perceived risk	.202	–.107	–.033	1.000		
5	Size	.506**	.012	.052	–.056	1.000	
6	Industry	–.198	.066	–.025	–.081	.045	1.000

Note: **Correlation is significant at the 1% level or better.

The correlations between the dependent and independent variables in Table 3 indicate that there is a significant negative relationship between quality of financial statements and access to finance ($r = -.315$, $p < .01$). This is inconsistent with the predicted relationship of a positive relationship between quality of financial statements and access to finance. The only other significant relationship is that between access to finance and company size with a correlation coefficient of .506, $p < .01$, meaning that larger SMEs are more likely to access finance than smaller firms. Among the independent variables, only information asymmetry and quality of financial statements are highly correlated at –.636. Field (2009) suggests that multicollinearity becomes a problem only when the correlation coefficient exceeds 0.80. The results in Table 3 show that none of the correlations between dependent and independent variables exceeds this threshold value.

4.3 Multiple regression results

The results of the multiple regression analysis of the relationship between quality of financial statements, information asymmetry, and perceived risk and access to finance as presented in Table 4 show that the overall explanatory power of the model is 63.7%.

Table 4 Multiple regression results

Source	*SS*	*df*	*MS*
Model	2.388	7	
Residual	1.17167	.017	.341
Total	3.559	74	

Variables	*Coef*	*Std err*	*t-value*	*Sig*
Constant	2.512	.490	5.125	.000
Quality of financial statements	.321	.075	4.271	.000
Information asymmetry	–.441	.078	–5.660	.000
Perceived risk	–.032	.166	–.193	.848
Quality of financial statements * perceived risk	–.136	.026	–5.306	.000
Information asymmetry * perceived risk	.167	.027	6.211	.000
Turnover	.165	.034	4.865	.000
Industry	–.087	.034	–2.525	.014

Notes: Number of obs = 75; F =19.519; Prob > 0.000; $R^2 = 0.671$; Adj $R^2 = .637$; MSE = .13221; Durbin–Watson = 1.897.

The results indicate that quality of financial statements has a significant and positive relationship with access to finance; hence, we accept our Hypothesis 1. The negative and significant relationship between information asymmetry and access to finance also means that our Hypothesis 2 is confirmed. However, we are unable to confirm Hypothesis 3 since the relationship between access to finance and perceived risk is not significant although in the predicted direction. In terms of mediation effect, the results in Table 4 show that perceived risk mediates the relationship between quality of financial statements, information asymmetry and access to finance. Consequently, our Hypotheses 4 and 5 are confirmed.

5 Discussion

The finding that quality of financial statements has a significant influence on access to finance is consistent with previous studies using secondary data, which found a significant positive relationship between financial information quality and access to finance. For example, Okurut et al. (2004) found that before banks extend credit to borrowers, they need to assure themselves of the viability of the loan applicant and thus they need adequate and proven financial statements. Similarly, Tweedie (2012) suggests that for SMEs to access finance from banks, quality of financial statements is paramount just as Levitt (1998) who suggests that quality financial statements increase access to finance. Additionally, Lambert et al. (2007) and Ball (2006) found that the quality of reported quality of financial information is related to access to finance. However, there is an apparent anomaly between the negative sign in correlation statistics and the positive sign in the regression model. We believe that the positive sign of the stable parameter for quality of financial statements might be because we now include the interactive terms in the model. The finding of a negative (β = –441) but significant regression between information asymmetry and access to finance also confirms the belief that when information asymmetry is high, access to finance is low. The result is consistent with previous studies such as Griffins (2002) and Mugume (2008) who found that banks are hesitant to extent finance to SMEs because of information asymmetry.

The finding that perceived risk is not a significant predictor of access to finance is inconsistent with studies conducted by Leuz and Varrecchia (2000) and Barth et al. (2006), which revealed that perceived risk lowers access to finance. This is also inconsistent with Hung and Subramanyam (2004) who argued that perceived risk theory embraces a behavioural intuitive aspect which appeals and plays a role in facilitating the bank's decision to either extend or not extend finance.

In terms of our interactive variables, the results which show that the *t*-value of the interaction between quality of financial statements and perceived risk of –5.306, which is greater than the *t*-value relating to the influence of quality of financial statements alone on access to finance of 4.271, suggests that a combination of quality financial statements and perceived risk is better at explaining access to finance than quality of financial statements alone. Similarly, the higher *t*-value in respect of the interactive effects of information asymmetry and perceived risk means that such a combination is a better predictor of access to finance than information asymmetry alone. The results of the control variables also indicate that both company size and industry are associated with access to finance. Specifically, the results of a positive and significant relationship between company size and access to finance suggest that 'medium'-sized companies have greater access to finance than 'small' companies do. This may be due to the fact that 'medium' companies produce better quality financial statements which lower the information asymmetry and hence have greater access to finance. The negative relationship between industry and access to finance means that companies belonging to the 'service' sector are less likely to access finance compared to 'manufacturing companies. A possible explanation for this variation may be due to the security that manufacturing companies can offer to the banks in terms of tangible assets compared to service firms.

6 Summary and conclusion

The purpose of this study was to investigate the relationship between quality of financial statements, information asymmetry, perceived risk and access to finance. It was argued that the perceived relationship was important since psychological literature suggests that individuals are likely to act or behave according to their perception. As a result, if SME owners/managers perceive that quality of financial statements, information asymmetry and perceived risk are likely to affect their chances of accessing finance, they will take steps to improve the situation. Data for the study were collected through a questionnaire survey of randomly selected 132 SMEs, of which 75 responded. The results suggest that quality of financial statements, information asymmetry, the interaction between quality of financial statements and perceived risk, and information asymmetry and perceived risk have a significant relationship with access to finance.

Despite these findings, the following limitations should be taken into account. First, we only managed to explain 63.7% of the variation in access to finance, which means that there are other factors that can explain variations in access to finance. Future research should be directed to finding other factors that determine access to finance by SMEs. Second, the sample was composed of registered SMEs that operate in Kampala, which means that unregistered SMEs and SMEs operating in other regions of Uganda were not investigated. The findings cannot therefore be generalised across the entire country. Studies in future can extend to other parts of the country.

Despite these limitations, the study makes important contribution in two principal ways. Firstly, the study is the first to undertake a study of the perceived relationship between quality of financial statements, information asymmetry, perceived risk, information asymmetry and access to finance. Although the findings confirmed the relationship between quality of financial statements, information asymmetry and access to finance, the relationship between perceived risk and access to finance was not confirmed. This suggests that more research is needed to find out why this is the case despite the wide acceptance based on secondary data that there is a relationship between risk and access to finance. Second, the study also makes an important contribution in the sense that the results suggesting that there is no significant relationship between perceived risk and access to finance mean that SME owners/managers may need training in order to sensitise them about how perceived risk may reduce their chances of accessing bank finance. However, since this is the first study to undertake this survey, more research is needed in order to validate our study.

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Appendix A

Questionnaire

Section A: General information

1 Name of the enterprise………………………………………….

2 What industry does your company belong to: | manufacturing | service (please tick).

3 What is the approximate annual turnover of the business in Uganda Shillings?

|UGX ≤ 20M| UGX 20 ≥ 30M| UGX 30 ≥ 40 | UGX40 ≥ 50 |UGX > 50M

Section B: State your opinion on the following statements by ticking the most appropriate response as follows:

1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly Agree

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
	Quality of financial statements					
1	In this enterprise all financial information is recorded immediately					
2	In this enterprise accountants are guided by the requirements of International Financial Reporting Standards for SMEs					
3	In this enterprise frequent audit is done					
4	In this enterprise accountants are consulted before any financing decision is made					
5	In this enterprise management is very open to employees					
6	In this enterprise management is honest with finances					
7	In this enterprise management is guided by the overall enterprise objectives					
8	In this enterprise management offers adequate accountability					
9	Accountants in this enterprise are independent in the professional practice					
10	Sound and accurate disclosure is done this enterprise					
11	In this enterprise the accounting procedures are adopted in preparation of financial statements					
12	In this enterprise international standards are adopted					
13	In this enterprise national standards are taken in to consideration while preparing financial statements					
14	The enterprise follows the regulatory framework					
15	Tax procedures are followed in presentation of financial statements.					

16	In this enterprise accounting concepts are adhered to in preparation of financial statements
17	In this enterprise a formal precision is used for consistency
18	In this enterprise accounting information is presented in one currency for purposes of accuracy
19	In this enterprise financial information is detailed
20	In this enterprise financial statements are signed by one authorised person
21	Financial statements are reported in one currency
	Information asymmetry
1	The enterprise receives adequate information on bank loan portfolios (R)
2	The enterprise is in touch with banks for information on availability of loans(R)
3	The bank informs the enterprise about changes interest rates
4	The banks avail loan servicing information on time to the enterprise(R)
5	The bank has a good working relationship with the enterprise
6	The enterprise avails all details about collateral to the bank on time(R)
7	The bank informs the enterprise about the nature of industry it funds(R)
8	The enterprise provides accurate financial information to the bank(R)
9	The enterprise ensures consistency in financial statements(R)
10	In this enterprise financial information is unbiased(R)
11	Accounts ensure that financial information is clear and concise(R)
12	Accountants purpose that financial information is relevant as per the bank requirements(R)
13	The enterprise avails financial information to the bank on time(R)
14	The enterprise has missed investment opportunities due to banks insufficient information(R)
15	The enterprise is very much aware of the requirements of the bank(R)
16	There is no information gap that exists between the bank and the enterprise(R)
17	The bank regularly visits the enterprise to audit the assets(R)
	Perceived risk
1	The enterprise has fear that the cash flows may not occur as predicted
2	The enterprise has fear that the bank may change the credit terms on short notice and it affects loan servicing.

3	The enterprise is not certain about the economic environment of the country
4	The enterprise is not sure about the market trends therefore servicing finance may be a problem
5	The enterprise has insufficient collateral which it fears it may be claimed by the bank in case of failure to pay
6	The enterprise is not sure about the bank's intentions in availing finance
7	The enterprise has a fear of exposure to external parties like banks
8	The enterprise prefers using equity to debt
9	The enterprise is not about the terms of commercial credit provide by the bank
10	The expectation of investment expenditures are not certain
	Access to finance
	Frequency of acquisition
1	The enterprise can get any loan amount because the information gap with the bank is kept at minimum
2	The enterprise does not have to go through un necessary bureaucracy to acquire a loan because the banks have reliable information
3	The enterprise has been accessing finance from one bank because of a sound relationship built
4	The enterprise keeps on switching from one bank to the other due to problems of loan servicing
5	The enterprise is not able to access finance as many time despite the improvement in financial statements
6	The enterprise can access finance with or without properly presented financial statements
7	The enterprise is frequently monitored by the bank for payments despite the presentation of the statement of financial position and Comprehensive income
8	The enterprise has not received any finance from the bank through formal procedures despite the availability of concise financial statements
9	The enterprise acquires finance without necessarily presenting financial statements
10	The enterprise bribes the bank to get a loan despite the well stated financial statements