Exploring Effect of Trust on the Agency Costs and Competitive Advantages in Credit Relationships between Banks and SMEs.

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Abstract

The purpose of current investigation is to examine the effects of interpersonal and inter-organizational trust on agency costs and competitive advantages achieved by banks and small and medium-sized enterprises working in Pakistan. The moderating variable namely non-financial advisory service has been used to augment the credit relationships. For collection of primary data, dyadic questionnaires were distributed among branch managers and credit officers and SMEs. Some Interviews have been conducted. The research results provide evidence that interpersonal and inter-organizational trust tends to decrease agency costs increasing the quality of credit negotiations. This has further impact on reduced bank's monitoring intensity enabling the stake holders to achieve competitive advantages. Non-financial advisory services further moderate significantly the credit relationships.

Key words*: Interpersonal Trust, Inter-organizational Trust, Banks, SMEs, Credit Relationships, Agency Costs, Competitive Advantages, Non-Financial Advisory Services*

Introduction

Bank has to deal with two relations. First is relations with staff and secondly, with customers. Bank customers are either depositors or borrowers. Bank create, build and maintain the strong credit relationships with the existing or new to bank borrowers. Bank provide variety of assets products to their borrowers, on varying terms and conditions. Bank earn markup income from their credit relationships. Bank face tough competition in credit market and meets the credit targets assigned by the regulators.

Agostino et al. (2022) Credit relationships in banking are greatly affected by social capital. The strength and length of credit relationship depends upon the social capital. The same performance and productivity is determined by the length of credit relationship with their credit lending institution. The social capital is now a days considered as a substitute of credit lending relationship. Berger et al. (2001) have explained in their study that Small and Medium Enterprises (SMEs) find it difficult to access in the capital market. Trust plays pivotal role in the financing relationships between the financial institution and borrowing Small and Medium Enterprises. The trust worthy relationship is the back bone of financing relationships between financing institutions and SMEs. Trust is assumed key source to augment the financing relationships and promote and develop credit and business activities in the country.

Hirsch et al. (2018) have explored the effects of interpersonal and inter-organizational trust on quality of credit negotiations and monitoring intensity in financing relationship between financial institutions and SMEs. Non-Financial advisory services being moderating variable has been taken in the investigation giving strength in this research model.

Commercial banks provide loans to SMEs to meet their short and medium term financial requirements. The banks provide impetus to develop small and medium-sized enterprises by providing them credit facilities both fund based and non-fund based. Small and medium enterprises stimulate economic growth by providing employment opportunities, fostering innovation and reducing income inequalities. Lack of adequate financing facilities from formal sources is one of the key challenges faced by the SMEs. Government of Pakistan is cognizant of this situation and is fully committed to provide financial accommodation to SMEs across the country at affordable financing from banks for establishing new business or strengthening their existing business. SMEs have to fulfill the prescribed loan formalities and loan security documents prior to sanction of credit limit(s) by the banks. Different partners play their role in trust building the credit relationship in the promotion and development of SMEs. Banks tend to market their SME products and procure fresh and New to Bank SME business besides catering to their existing businesses. Banks provide SME financing targets to their branches. Branches perform their routine credit loan processing and sanctioning, perform monitoring of the loan accounts and prepare credit control returns. Then, collection of principal, installments/loan markup is the responsibility of the bank officials. Watch-listing of SME loan accounts is conducted by the bank to avoid default or loan accretion in the non-performing loans. Various types of trusts especially interpersonal and inter-organizational trust affect agency costs and competitive advantages in credit relationship between commercial banks and SME enterprises. Further, government provides mark up and credit loss subsidy on the delinquent SME loans provided to SME entrepreneurs under SBP Refinance and Credit Guarantee Scheme(s). Agency Theory explains that how to organize and manage the relationships between the “principal”, that determine the task and “agent”, who act and performs or makes decisions on behalf of the principal. When there is trust worthy and smooth business relationship between commercial bank and SMEs, the agency problem can be mitigated. If there is mutual trust between bank and SME, lesser collateral requirements will be needed. The good trusting relationships tend to have long-term financing relationships and hence lower agency costs and lower monitoring intensity and increased competitive advantages.

According to transaction cost theory, the elements of trust are considered an significant determinant in the credit relationships between the loans stakeholders (Zaheer et al., 1998). The trust has strong effect on the transaction costs vis-a-viz financial institution and borrower relationship in the financing sanctioning process, *(*Shaiq et al., 2020). In current research study, the agency costs have been taken as significant business deal costs a financing institution borne while disbursing finance to SMEs for their working capital requirements. Jensen and Meckling (1976) have given various categories of agency costs: the opportunity loss, the watch listing and relationship expenditure and default risk costs. In this study, credit control costs have been taken to study financing institutions and SME borrowers whether existing or new to banking financing relationships. Transaction costs theory supports the current investigation that highlight the implication of bank’s agency costs and competitive advantages in bank-credit relationships.

This investigation has several significant contributions. It highlights the impact of trust in lower agency costs and creased competitive advantages in the credit relationship between banks and small and medium enterprises. Trust strongly affects Credit relationships in bank’s credit operations. The trust has significant affects agency costs and monitoring intensity. The enhanced competitive advantages are possible where the worthy credit relationship exists in credit relationships. The credit relationships are further moderated by Non-financial advisory services provided by the banks and other regulatory governmental and private support service providers and agencies. When banks extends loans and credit lines to SMEs, both borrowers quality and trust has to be looked far (Botas, & Gonzales, 2021)

The rest of the research report is structured as follows: The review of the literature is the focus of the second section. The third section explains the study’s theoretical framework and methodological approaches. Section four contains the results of the data analysis. In the final section, the study results have been summarized and further supported with future directions and limitations of the current study.

Significance of Study

This study will extend the validity of trust agency costs and competitive advantages research. Further, our research results will recheck the earlier research work conducted for further identification of other key factors determining trust effects on agency costs and competitive advantages in credit relationships. This study will provide theoretical, academic, and contextual contributions to SME entrepreneurs, banks, financial advisors, and research practitioners. This study will add value to earlier risk work and lead to new areas of research to fill the research gaps identified in the latest research findings.

Review of Literature

The term "trust" has been defined as "confidence in the integrity, ability, character, and truth of a person or thing" in the American Heritage Dictionary (1991). Trust, has also been defined as a willingness to accept vulnerability or risk based on confident expectations regarding another person’s behavior, which is important to many human interactions, particularly in contexts of limited information or high consequences for a betrayal of trust. (The Science of Interpersonal Trust, by Dr. Randy Borum)

Lending banks have close relationships and rapport with their borrowers at both the interpersonal and inter-organizational levels. (Hirsc et al. 2018) Inter-organizational trust has been defined as the degree to which members of one organisation hold a collective trust orientation toward another organisation (Zaheer, McEvily, & Perrone, 1998). So, Currall and Inkpen (2002) point out that a group's orientation is based on its shared history with another group, which is made up of socially constructed events.

In banks too, agency problems arise due to conflicting interests between the owners of the firms and their agents. These problems may stem from information uncertainties and information asymmetries, not allowing the managers to work on the assignment that may yield positive returns, anomalies in the perks and privileges given to the managers, division of responsibilities, managerial responsibilities, and production activities. Different types of trust can be sources of competitive advantage. (Barney and Hansen, 1994). They argued in the light of transaction cost theory that different partners in firms can avail themselves of business benefits. They further argued that most partners are distrustful most of the time. Trust can be a source of competitive advantage.

Zoran et al. (2016) have given a plan for the effective use of support services for SMEs to meet their business requirements and related needs. They augmented their views that support services are provided by government, non-government organizations, and other regulatory agencies at all levels to meet the financial and non-financial needs of SMEs. Khan, M.M. (2015), has given a detailed overview of the sources of finance available for the SME sector in Pakistan.

Hypotheses Development

Agency Costs

Agency cost has been defined as monitoring cost in commercial banks.. Agency cost is considered the amount of profit generated by the agent for his manager/owner. Agency cost and the crisis of China's, SOE Jensen and Meckling, has firstly introduced the concept of agency cost of debt. They argued in their study that equity holders enhance their earnings from their investments in risky assets. Agency costs are internal costs incurred from asymmetric information or conflicts of interest between principals and agents in an organization. Further, agency costs are internal costs incurred due to the competing interests of shareholders (principals) and the management team (agents).

H1: Bank's interpersonal trust and inter-organizational trust positively affects agency costs in credit relationship between financing institutions and SME borrowers.

Interpersonal Trust

The credit rating and size of entrepreneurs and firms and their relationship with the credit disbursing institutions do matter in making credit decisions, but trust, which is the most important socio-psychological factor, is often neglected in financing decisions (Howorth and Moro, 2006; Fink and Moro, 2013). According to cost theory, trust has been taken as a significant determinant in the credit relationship between borrowers and firms (Zaheer et al., 1998). Different researchers have seen trust as a multi-dimensional thing, but Nooteboom et al. (1997) and Schoorman et al. (2007) show that trust can be broken down into interpersonal and inter organizational trust dimensions. Currently, finance researchers are measuring trust dynamics in an organisational trust research context (Moro and Fink 2013). Other researchers argued that trust plays a significant role in credit relationships. The trust constructs strong, long-term relationships, and few firms will switch to other banks.

In German lending market,, Körting and Harhoff (1998) the credit relationship not only affected by the their relationships and number of financing banks, but mutual trust is an significant constituent in extending credits where trust reduces interest rates and collateral and security formalities. They have measured trust as a one dimensional construct. In their study, they have established that increased trust leads to increases financing portfolio of the lending banks and reduced interest costs to great extent.

H2: Bank's interpersonal trust positively affects quality of credit negotiations with SMEs.

Inter-organizational Trust

Inter-organizational trust is considered as transactional personal based relationships. This type of trust is considered as the shared opportunities of all financing stakeholders of a credit disbursing organization in the context of institution. The credit negotiations quality supports the financing institutions to reach at their loans contracts very easily to meet their loan targets assigned by management.. An organizational pattern affects stable and strong interaction patterns among the credit partners (McEvily et. al., 2003). Consequently, in credit relations increased degree of trust, the credit negotiations quality enhances significantly and chances of complicated and difficult negotiations are reduced at barest minimum level. (Williamson, 1975).

H3: Bank's inter-organizational trust positively affects the quality of credit negotiations with SMEs.

Quality of Credit Negotiation

In this study, agency cost has been taken as transaction cost between the bank and SME entrepreneur that is incurred in credit relationships. Jensen and Meckling and Jensen (1976) argued that credit supply to SMEs is linked with three basic elements of agency costs namely: the opportunity costs, the monitoring expenses, bankruptcy as well as delinquency costs. This undergoing study focused on monitoring expenses borne by banks while giving credit lines to their SMEs borrowers.

Besides, Diamond (1984) explored that banks play the role of intermediaries and monitors their loans performances, while Burghof (2000) supported current study in question and concluded that banks can negotiate better loan agreements on the strength of their past experiences and their well-defined credit granting criteria. The banks initiate the loans contracts and monitor the financial performance during the currency of loan limits and other related terms and conditions under banks well defined criteria's and principles of lending. The banks can be treated as negotiators, loan contractors and financial monitors. The undergoing investigation highlighted that loan covenants, loan negotiations and financial watching are major constituents of bank's agency costs in determining relationship with SMEs borrowers. Additionally, trust supports to establish collaborative relations that are based more on Informal as contrast to formal covenants (for example, terms and conditions, regulations, credit policies, contracts) (Van and Ring, 1994). It can be safely argued that trust is positively affects credit negotiations quality as all credit and loans stakeholders work with piece of minds as per their credit requirements and targets. (Zaheer et al., 1998). On the basis of these thoughts, this investigation the following hypotheses is formulated:

H4: Bank's interpersonal trust directly influences the credit negotiations quality in relationship with SME borrowers.

Monitoring Intensity

This study concludes that credit monitoring tool is used by bank's extensively. The credit control is bank's well defined internal framework and criteria to support and achieve the business objectives (Mills and Leifer, 1996). The bank-borrower relationships literature disclosed that banks credit risks may be avoided to great extent by strict credit monitoring and awareness of borrowers' repayment behavior and credentials of borrowers. (Meckling and Jensen, 1976). Conversely, how the banks conduct their monitoring activity? have not been defined (Burghof, 2000). Credit monitoring and risk review is giant task of lending banks. The lending banks monitor the loan performance of their borrowers, examining their financials and terms and conditions of their loan contracts and covenants at well-defined intervals (Burghof, 2000; Meckling, 1976). As credit monitoring chiefly involves the watching of borrower's loan performances. It is reliable criteria of assessment of partner financial worthiness and performance (Teng and Das, 2001) which most significant element in financial monitoring in credit relationships. It has been investigated positively that in credit relationships where the higher level of trust prevail, transacting members avoid opportunistic activities (Barney and Hansen, 1994). The intelligent control mechanism adopted by banks, higher trust level may be negatively associated with the monitoring intensity. On the basis of these suppositions, this research study proposes the following hypothesis:

H5: The lending bank interpersonal trust negatively influences the bank's monitoring intensity while extending finance to SME borrowers.

Competitive Advantages

Different forms of trust can be source of competitive advantage.(Barney and Hansen, 1994). They argued in the light of transaction cost theory that different partners in firms can avail benefits of trade. They further documented that most of business partners are trust worthy most of the time. Mostly trust can be source of competitive advantage. Sometimes, the exchange partners may be untrustworthy. Some partners are opportunistic, trustworthy or simplistic. However, variance in their characteristics, the possibility of competitive advantage exists. Firm's ability to create and manage trust can be critical factor for attaining sustainable competitive advantage (*Shaikh and Khoso, 2019)*. They argued that competitive environments enable the firms to enjoy the fruits of competitive advantages. The firm's capabilities to effectively manage the relationships can be source of a competitive advantage (Atif Saleem Butt, 2018). They argued that sometimes personal relationships may increase agency costs, e.g. higher salaries, higher allowances, perks, and increased bonuses by the sales managers. The comparative advantages can be obtained by the banks in relationship lending to small institutions with lower agency costs within the institution because they typically have less separation (if any) between ownership and management and fewer overall layers of management (Berger and Udell 2002).

H6: Bank's interpersonal trust and Inter-organizational trust positively influences the competitive advantages in credit relationships of bank's with SME enterprises.

Non-Financial Advisory Services

SMEs require hassle free and sufficient financial as well as non financial sources for their sustainability, growth and development. The researchers have pointed out the ways to remove hindrances coming in financing facilities to SMEs. Various factors influence SMEs in obtaining loans from banks. (Haroon et.al.2013) They pointed out that SMEs require easy access to finance, human capital, technology and related market. While granting loan to SMEs Character, Collateral and repayment capacity is considered by the loan recommending and sanctioning authority at bank. Besides the government and regulatory bodies assist and provide nonfinancial advisory services to SMEs clients to meet the parameters defined by the l banks before providing loans. Both financial and non financial services are provided at new start-ups and existing businesses. They described the four key indicators in their study are namely, courteous service, communication skills, technology and loan facility. The proper delivery of finance and utilization of finance is key to success of SME development. Kamyabi and Devi. (2012) explored that most of the SMEs are incompetent in their capabilities and capacities. The services of professional and public accountants can be utilized to rescue their non-financial issues to improve the performance and development of SMEs. The non-financial advisory service providers may charge for their services. They further concluded that advisory services being provided to SMEs by banks moderate their credit relationships. In the UK, 98.5 percent of owners/managers relied on their accountants for financial advice. In comparison, 78.0 percent of Chinese approached their accountants for advice in relation to their financial needs.

H7: The commercial bank's non-financial advisory services positively influence the trust relationship between banks and SMEs borrowers.

Theoretical Framework

Based on the literature review as well as hypotheses, this study give the research model is proposed as under:

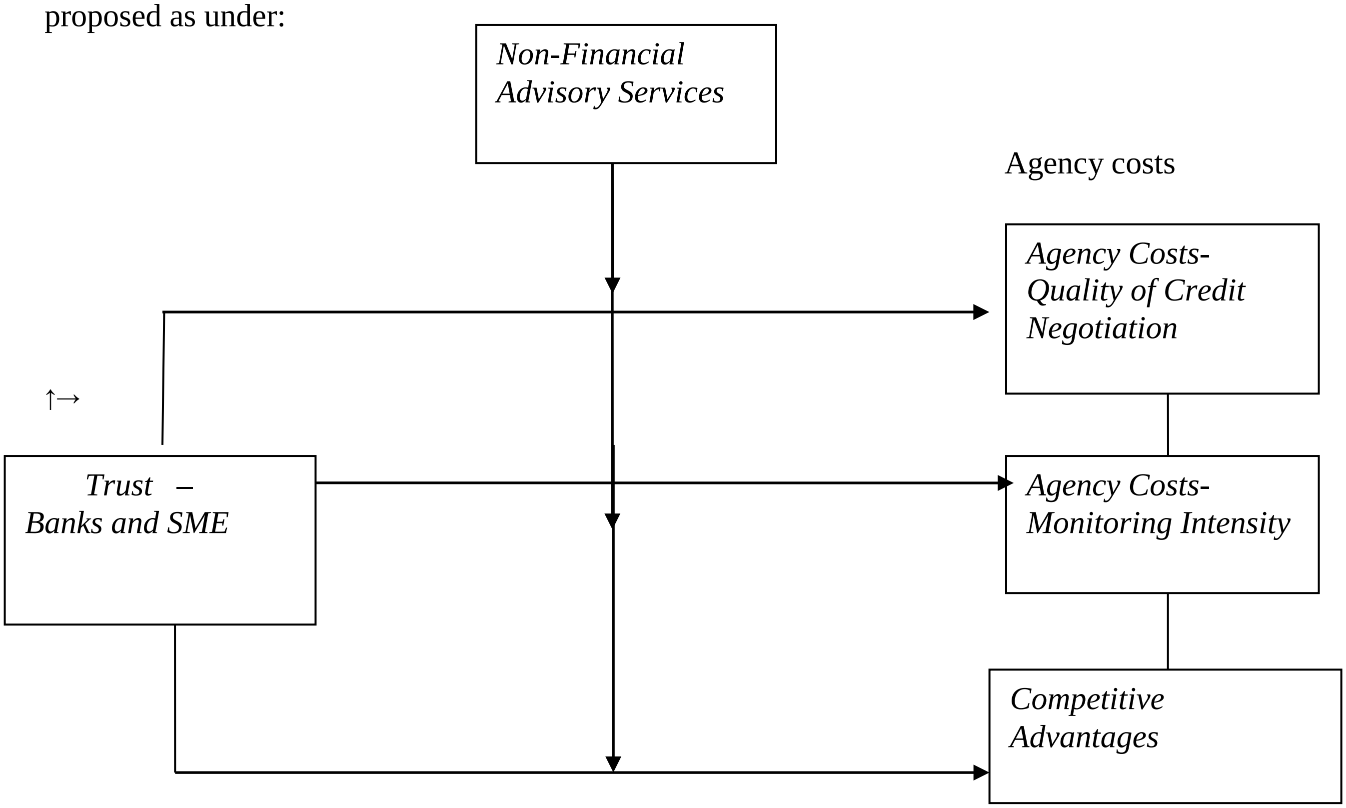

Figure 1

Methodology

Research method and data

Study would be a mixed type of study which has brought hypothesis based on strong theoretical and critical literature and would use empirical data to prove hypothesis. Therefore, this study will have a flavor of qualitative as well as quantitative research.

Variables settings

This study used the questionnaire method to test this research framework. The questionnaire was adopted from the research papers based on measurement instruments. The measurement scales were modified wherever were necessary. For all measurements, a five -point Likert-type scale ranging from 1, "Strongly Disagree", 5 being, "Strongly Agree." was used. All hypotheses constructs were operationalized with desired measurement models. This study focused on the impact of interpersonal and inters organizational trust on related agency costs and comparative advantage. In the current investigation, Non-Financial Advisory Services as moderating variable has been taken to explore strong argument. Nooteboom et. al. (1997) has given two dimensions of intentional trust: "habitualization" and "institutionalization". They have defined habitulatization as the familiarization and connecting relationship. (Nooteboom et. al., 1997), whereas second element means institutionalization of values and norms which is source of creation of credit relationships" Nooteboom et. al., 1997. This study measured the other dimensions on the interpersonal and inter-organizational levels by using items from the research explored by Nooteboom et. al. (1997), Doney and Cannon (1997), and Zaheer et. al. (1998). The hypotheses tested and both dimensions of trust as individual variables have been integrated in this research model. The requisite table reported all elements for the trust measurements by the relationship managers (IPT-Interpersonal trust) and the credit risk officers (IOT-inter-organizational trust). The current study assessed the trust measurements based on the combination of the items IPT and IOT. This is joint measurement of trust IOT (inter-organizational trust). This study explored that inter-organizational trust is a shared opportunities of partners of an organization in another organization (Zaheer et. al., 1998).

This study under investigation, explained that the quality of credit negotiation. There will be win-win situation in case of optimistic negotiation process. A scale from Artz (1999) for measuring the quality of credit negotiation was adopted. This study corresponds to indicators used in a study by Matthes (2007), which adapted the scale from Artz (1999) measuring the quality of negotiations. These investigations empirically investigated the impact of various elements on transaction costs of the business deal stakeholders..

Monitoring intensity variable was operationalized. In this study, data was obtained open ended 50 interviews with risk departments and risk officers (credits) working in bank (NBP) to explain the control mechanisms that is used to monitor the business of the SME-borrowers. A scale adopted by Graham and Schafer (2002) used in corporate clients category of borrowers was added in this study. In this study, an five item scale to measure the monitoring intensity in a credit relationship with an SME was used.

Data collection

In this study, previously used two methods to measure trust in bank-SME credit relationships were taken into account. Firstly, the data on 194 credit relationships from commercial bank (from NBP) situated in the Pakistan was obtained. Further, data was also obtained from 194 SMEs entrepreneurs. The bank allowed studying their credit and loans files. Secondly, questionnaires was distributed to the concerned relationship managers and risk officers (credits) for obtaining requisite data. National Bank of Pakistan is the largest commercial bank operating in Pakistan and it has more than1600 branches in Pakistan. NBP provide SME loan to SMEs sector across Pakistan. In Pakistan, the number of inhabitants is 220.000 Million. SMEs obtain loans from NBP to meet their short and long term credit requirements. In 2009, the NBP loans default ratio remained very low. NBP is the market leader in the local market (public sector bank in Pakistan) and its share in the market is more than 26%. Banking market consist of 26 commercial banks operating in Pakistan.. However, the bank has to compete in the local financial market. All relevant competitors (private banks, other government and provincial commercial banks) are providing financial services to their clients in the market. SME loans are provided to SME borrowers for meeting their working capital requirements and for their development purposes. Further, loans of different categories are also allowed under State Bank of Pakistan scheme, which are provided on concessionary rates of mark up and easy terms and conditions. NBP is the top performing bank in the Pakistan for financing to the SME borrowers. The questionnaires for collecting the primary data were distributed to NBP employees and returned within one month time. The consolidated answers of the relationship manager and credit risk officer with regard to the credit relationships, each questionnaire was filled out in advance with the name of the SME borrower and the date and amount of the last credit decision and amount disbursed with specific terms and conditions. In this research study the data was collected from numerous informants Podsakoff and Organ (1986). The study under question ensured the reliability and external validity of our measurement models, as applied in the study of Podsakoff and Organ (1986) with regard to the design of this study questionnaire. Of the 194, all distributed questionnaires were received back and were usd for data investigation. As per requirement of SEM mode,, the dependent variable was identified with the sufficient numbers if independent variables, which is quality of credit negotiation. The competitive advantages variable was used as independent variable in this study. Accordingly, result displayed that the SEM model under study is sufficient to establish relations among constructs with medium or strong effects.

Population and Sample

Credit relationship managers and risk managers in commercial bank (NBP) and credit files upon the SME borrowers was considered as population of this study. For research study purpose, the target population has been narrowed down to Bank (National Bank of Pakistan) and SMEs operating in Pakistan, obtaining loans from this largest bank of the country (Pakistan). Sampling strategy was used to obtain data of relationship managers, risk managers and credit files upon the SME borrower available in the bank. For the research study, the convenient sampling technique was used to collect primary data from the bank and SMEs obtaining loans for their working capital and non fund based financial requirements. This research study tested seven hypotheses using a SEM (structural equation model) to qualitatively and quantitatively analyze the data obtained from bank (National Bank of Pakistan) and SMEs obtaining loans from this giant bank. In this study, for collection of primary data, 194 dyadic questionnaires was distributed among branch relationship managers and credit risk officers. Further, 194 questionnaires were distributed to target SMEs operating in Pakistan and obtaining SME loans from Commercial Bank (NBP). Secondary data was obtained from Bank (NBP) by studying the SME credit files of borrowers obtained loans from Bank (NBP). The Bank has allowed to study SME loan proposal credit files of their SME clients, existing and New to Bank loan borrowers. Besides, some upfront open-ended interviews were conducted with the credit departments in bank to assess the monitoring level of performance of the SME-borrowers (Rossiter 2002).

Data Analysis Techniques

This research study tested seven hypotheses. The results of SEM (Structural Equation Model) were performed in STATA 14 software to qualitatively and quantitatively analyze the data obtained from bank (National Bank of Pakistan) and SMEs through distribution of questionnaire, study of credit files regarding the SME borrowers and open-ended questions for measuring the strength of relationship between dependent (trust)and independent variable) and agency costs and competitive advantages(dependent variables) along with and Non-Financial Advisory Services as (moderating variable) provided to SMEs whether they are availing loans for working capital or long term loans for their existing projects, startups, NTB(New to Bank relations) or MBR (balancing and modernizations of their businesses and projects, in the relationship between commercial bank and SMEs operating in Pakistan. The most popular tool Likert (1932) scale was used, categorizing the questions in to a scale, ranging from strongly disagree to strongly agree.

Table 1
Descriptive Statistics

Variable	**Obs**	**Mean**	**Std. Dev**	**Min**	**Max**
trust_ip	145	3.6506	0.5791264	2.333	5
trust_io	145	3.7333	0.4868645	2.667	5
Qcn	145	3.5264	0.6486798	1	4.5
mntr_intsty**	145	4.066	0.4405633	2.5	5
Nfas	145	4.2	1.744933	3	14.25
comp_advntg	145	3.9391	0.4830514	2.5	5
Gender	145	1.1724	0.379049	1	2
m_status	145	1.9724	0.1643517	1	2
Age	145	3.1931	0.9376133	2	5
qualification	145	3.3034	0.5691629	2	4
Experience	145	2.7241	0.5588028	1	3
nfas*trust_io	145	15.402	4.608049	11.5	38
nfas*trust_ip	145	15.326	6.516594	9.333	49.875

**Observations*
***MI Monitoring Intensity*

Table 1 shows the descriptive statistics of all study variables for entire sample. In total the study comprises of 145 total no of respondents. The mean value of trust interpersonal is 3.65 whereas SD from the mean is 0.579 and maximum value is 5 respectively. Likewise, the average mean value of inter organizational trust is 3.73 and deviation from mean is 0.486.Further the above table reports the agency cost with 2 variables i.e. QCN and MI. The mean value of QCN is 3.53 and mean value of MI is 4.06 and their maximum value is 4.5 and 5 respectively.
Furthermore, Non-Financial Advisory Services (NFAS) is being used as a moderating variable in this study. The mean value of NFAS is 4.2. This represents that increase in mean value which has positive effect on credit relationships with all stakeholders. Similarly, the mean of CA is 3.9 and minimum value is 2.5 and maximum value is 5 respectively. Further this table shows the demographics statistics of overall sample of the study. The minimum value of gender and marital status is 1 and 2 respectively. The mean value of age is 3.19 and minimum value is 2 and maximum value is 5 which show that average is between 50-60 and above. The mean value of qualification is 3.3 and maximum value is 2 which show that majority of respondents having a degree of Master of Science. The above table also shows the demographic of experience. The mean value is 2.72 which mean majority of respondents having experience in between 5 to 10 years respectively. The mean value of moderating variable i.e. NFAS in the trust inter organizational is 15.4 and mean value of NFAS into trust interpersonal is 15.32 respectively. Increase in NFAS will have a positive effect on this credit relationship.

Correlation

Table 2

Shows the correlation analysis

	trust_ip	**trust_io**	**qcn**	**mntr_intsty**	**Nfas**	**comp_advntg**	**gender**	**m_status**	**age**	**qualification**	**Exp**	**nfas*trust_io**	**nfas*trust_ip**
trust_ip	1												
trust_io	0.704	1											
Qcn	-0.063	-0.292	1										
mntr_intsty	0.187	0.157	0.176	1									
nfas	-0.006	-0.329	0.133	0.04	1								
comp_advntg	0.036	0.445	-0.361	0.31	-0.2	1							
gender	-0.356	-0.250	-0.061	-0.11	-0.09	-0.0497	1						
m_status	0.092	-0.1504	-0.123	-0.118	-0.03	-0.1379	0.076	1					
Age	-0.0028	0.0122	-0.283	0.228	0.08	0.343	-0.2506	-0.1455	1				
Qualification	0.1694	0.0434	0.417	0.1846	-0.15	-0.1175	-0.2442	0.0901	-0.5	1			
experience	0.2008	0.0851	-0.031	0.2699	0.178	0.0574	-0.2985	-0.0834	0.63	-0.259	1		
nfas*trust_io	0.3041	0.1107	-0.038	0.1105	0.897	0.0092	-0.2056	-0.1228	0.14	-0.1638	0.3	1	
nfas*trust_ip	0.342	-0.0589	0.0853	0.0999	0.937	-0.1845	-0.2113	0.0085	0.08	-0.0818	0.2	0.9518	1

There is positive association between trust , inter organizational trust and interpersonal trust. QCN (quality of credit negotiation) and Interpersonal trust has negative correlation with each other. Whereas monitoring intensity and Interpersonal trust has positive association among them. Likewise NFAS and Interpersonal Trust have negative relationship with each other. Similarly, the above table reports that interpersonal trust and Competitive Advantages has positive and significance association with each other. Furthermore, the table 2 shows the negative relationship of QCN and Inter organizational trust.
Similarly, Monitoring Intensity (MI) and Interpersonal Trust (IPT) has also have a positive association between them, whereas, NFAS has negative association with Inter organizational Trust (IOT) but Competitive Advantages (CA) and Inter-organizational Trust (IOT) has positive relationship with each other. Quality of Credit Negotiation (QCN) and Monitoring Intensity (MI) have positive association with each other whereas CA and QCN have negative association with each other.

Table 3

	OIM*					
Standardized	Coef.	Std. Err.	Z	P>z [95%	Conf.	Interval]
Structural qcn <-						
trust_ip	4.461285	0.6122	7.29	0	3.2613	5.6612
Nfas	12.50741	1.6057	7.79	0	9.3603	15.655
nfas_trust_ip	-13.116	1.7126	-7.66	0	-16.473	-9.7593
Gender	0.0294059	0.0762	0.39	0.7	-0.12	0.1788
m_status	-0.1079856	0.0624	-1.73	0.083	-0.2302	0.0142
Age	-0.0565118	0.1006	-0.56	0.574	-0.2537	0.1407
Experience	-0.0004023	0.0895	0	0.996	-0.1758	0.175
qualification	0.3942217	0.0779	5.06	0	0.2415	0.547
_cons	-22.91089	3.8948	-5.88	0	-30.545	-15.277
mntr_intsty <-						
trust_ip	0.8505604	0.7976	1.07	0.286	-0.7126	2.4137
Nfas	1.879642	2.1242	0.88	0.376	-2.2838	6.0431
nfas_trust_ip	-1.918783	2.2577	-0.85	0.395	-6.3438	2.5063
Gender	0.2457766	0.0867	2.83	0.005	0.0758	0.4158
m_status	-0.1131288	0.0728	-1.55	0.12	-0.2558	0.0295
Age	0.4772655	0.1107	4.31	0	0.2603	0.6942
Experience	0.098204	0.1043	0.94	0.346	-0.1062	0.3026
qualification	0.5040874	0.0867	5.81	0	0.3341	0.6741
_cons	-0.5782654	5.0344	-0.11	0.909	-10.446	9.289
comp_advntg <-						

trust_ip	-5.411308	0.5638	-9.6	0	-6.5163	-4.3063
Nfas	-14.95162	1.4749	-10.14	0	-17.842	-12.061
nfas_trust_ip	15.66942	1.5772	9.94	0	12.578	18.761
Gender	0.0599212	0.0746	0.8	0.422	-0.0863	0.2061
m_status	-0.1664696	0.0605	-2.75	0.006	-0.285	-0.0479
Age	0.3660696	0.0955	3.83	0	0.1789	0.5532
Experience	0.0100122	0.0877	0.11	0.909	-0.1618	0.1818
qualification	0.1317885	0.0803	1.64	0.101	-0.0257	0.2893
_cons	41.29503	3.543	11.66	0	34.351	48.239
var(e.qcn)	0.5425659	0.0535			0.4472	0.6583
var(e.mntr_intsty)	0.7409326	0.0584			0.6348	0.8648
var(e.comp_advntg)	0.5203211	0.0522			0.4275	0.6333

*OIM Observed Information Matrix

The table shows the results of structural equation Model (SEM). Interpersonal Trust (IPT) has positive and significant effect on quality of credit negotiation (qcn) which bank can achieve competitive advantage. Increase in Interpersonal Trust (IPT) will lead to 4.46% increase in Competitive Advantages (CA) for the bank. NFAS with qcn has a positive and significant relationship with qch which results increase in CA. Increase in NFAS will have a positive effect on the CA. However, NFAS and trust IP has a negative and significant relationship on qcn which decreases the CA.

Gender has a positive but insignificant effect on qcn, therefore it does not have any significant effect in achieving CA. Marital status has negative and insignificant effect on qcn hence it does not affect the CA. Similarly, age and experience also have negative and insignificant effect on qcn, which does not effect in achieving CA but qualification has positive and significant on qcn through which banks can achieve CA.

Moreover, interpersonal Trust (IPT) and MI have positive and insignificant relationship which does not affect CA for the banks. NFAS also has positive and insignificant relationship with MI increase in NFAS cannot increase the MI hence CA cannot be achieved. Whereas NFAS _TIP has negative and insignificant association with MI which doesn't result in achieving CA. Gender age and qualification has positive and significant effect on MI which will help the bank in achieving CA. Trust Interpersonal (TIP) has negative and insignificant on CA whereas NFAS has negative and significant effect on CA increase in NFAS will decrease CA for banks. This study is related to Pakistan banks employees and limited sample size is under the study. NFAS _TIP has positive and significant impact on the CA for the banks. Marital status has negative and significant impact on CA. whereas Age has positive and significant impact on CA.

Table 5
Shows the results of SEM

	OIM					
Standardized	Coef.	Std. Err.	Z	P>z [95%	Conf.	Interval]
Structural qcn <-						
trust_io	1.589166	0.3177	5	0	0.9665	2.2119
Nfas	4.478846	0.6892	6.5	0	3.128	5.8297
nfas_trust_io	-4.237932	0.6559	-6.46	0	-5.5235	-2.9524
Gender	0.0699047	0.0765	0.91	0.361	-0.08	0.2198
m_status	-0.2992652	0.0589	-5.08	0	-0.4148	-0.1837
Age	0.0031448	0.1066	0.03	0.976	-0.2058	0.2121
Experience	0.1965211	0.0791	2.48	0.013	0.0415	0.3516
qualification	0.401742	0.0768	5.23	0	0.2512	0.5522
_cons	-3.301393	2.4299	-1.36	0.174	-8.0639	1.4612
mntr_intsty <-						
trust_io	1.45726	0.3686	3.95	0	0.7349	2.1797
Nfas	2.97383	0.8336	3.57	0	1.3399	4.6077
nfas_trust_io	-2.693821	0.7955	-3.39	0.001	-4.253	-1.1346
Gender	0.3306134	0.0844	3.92	0	0.1652	0.496
m_status	-0.1166643	0.0712	-1.64	0.101	-0.2562	0.0228
Age	0.6496343	0.1116	5.82	0	0.4308	0.8684
Experience	0.1189921	0.092	1.29	0.196	-0.0613	0.2993
qualification	0.5769797	0.0819	7.05	0	0.4166	0.7374
_cons	-5.883289	2.713	-2.17	0.03	-11.201	-0.566
comp_advntg <-						
trust_io	-1.021773	0.3284	-3.11	0.002	-1.6654	-0.3782
Nfas	-3.480176	0.7154	-4.86	0	-4.8823	-2.078
nfas_trust_io	3.298572	0.6804	4.85	0	1.965	4.6321
Gender	0.1091186	0.0764	1.43	0.153	-0.0406	0.2588
m_status	0.0328901	0.0623	0.53	0.597	-0.0892	0.1549
Age	0.4496029	0.1025	4.39	0	0.2488	0.6504
Experience	-0.2726652	0.0782	-3.49	0	-0.4259	-0.1194
qualification	0.1510439	0.0808	1.87	0.062	-0.0073	0.3094
_cons	11.57007	2.4845	4.66	0	6.7006	16.44
var(e.qcn)	0.5126501	0.0517			0.4207	0.6247
var(e.mntr_intsty)	0.6822077	0.0586			0.5765	0.8073
var(e.comp_advntg)	0.5141275	0.0518			0.422	0.6263

The table shows the results of SEM. Trust Inter organizational (TIO) has positive and significant effect on qcn which bank can achieve competitive advantage. Increase in IPT will lead to 1.59% increase in CA for the bank. NFAS with qcn has a positive and significant relationship with qch which results increase in CA. Increase in NFAS will have a positive effect on the CA. However, NFAS and trust Io has a negative and significant relationship on qcn which decreases the CA. Gender has a positive but insignificant effect on qcn, therefore it doesn't not have any significant effect in achieving CA.

Marital status has positive and significant effect on qcn hence it affects CA. Similarly, age also have positive and insignificant effect on qcn, which does not effect in achieving CA but qualification has positive and significant effect on qcn through which banks can achieve CA. the experience has positive and significant effect on qcn which positively affect CA. Moreover, TIO and MI has positive and significant relationship which effect CA for the banks. NFAS also has positive and significant relationship with MI. Increase in NFAS increase the MI hence CA can be achieved. Whereas NFAS _TIO has negative and significant association with MI which doest result in achieving CA. Gender, age and qualification has positive and significant effect on MI which will help the bank in achieving CA.TIO has negative and significant on CA whereas NFAS has negative and significant effect on CA.

Increase in NFAS will decrease CA for banks. This study is related to Pakistan banks employees and limited sample size is under the study. NFAS _TIO has positive and significant impact on the CA for the banks. Marital status has positive and insignificant impact on CA. whereas Age has positive and significant impact on CA.

Conclusion

The results of this study investigated the trust dimensions in agency costs and competitive advantages in credit relationships. The findings current investigation showed that trust elements reduce agency costs and increased competitive advantages in credit relationships. Further, trust which is psychological socio factor, plays pivotal role in lending processes in banks. Trust avoids to hurdles coming in the way of credit negotiations. Trust is key determining factor that creates collaborative credit relationships in banking operations. The banks has predefined criteria and procedures for lending purposes, but should consider the trust dimensions before considering finance to SME borrowers.

The SME s should build strong relationships with their financers and bankers. The current study explored that trust is major determinant in decreasing bank's agency costs elements and achieve competitive advantages to great extent. This will be a way forward for SMEs to meet their credit requirements for their development and working capital requirements. The banks have the opportunity to establish good relationships of trust with their SMEs. SME financing is also a giant source of combating unemployment level in the developing country like Pakistan. The relationship manager is duty bound to create and build bank's trust in SMEs. Conclusively strong trust tantamount to build strong and trust worthy relationship between banks and SMEs. The relationship manager is the key constituent in reducing agency costs, lowering monitoring intensity and increased competitive advantage for all stakeholders. The results are consistent with the study of Haroon H.(2013) and Hirsch et.al. (2018). Further, the services of professional and public accountants can be utilized to rescue their non - financial issues of SME borrowers to improve the business performance and development of their business ventures and projects,. The results of current investigations are similar to exploration by Devi, S. and Kamyab (2012).

Practical Implications

This study results are very imperative to policy makers, lending banks, central bank (State Bank of Pakistan), SME, SME Women Entrepreneurs and researchers. This study investigated and explored that trust crucial factor in reducing agency costs and is a source of achieving competitive advantages by all stake holders of relationship and SME credit lending. Whether they are existing or NTB (Fresh and new to Bank relationships,) fresh SME borrowers, all enjoy the paybacks of trust worthy credit relationships. Due to better and strong long lasting credit relationships between banks and SMEs, financing and non-financial gaps can be minimized to greater extent.

Limitations

This research investigation explored the trust dimensions in credit relationships. It has some limitations. The longitudinal research design may be used to explore the impact of trust in credit relationships. Further, the study can be conducted for private banks and different cultures may be explored. More variables like Markup rates (cost of loans paid by the borrowers to their bankers), loans security requirements, loans processing fees and credit availability for women entrepreneurs can be examined at length in the interest of all related stake holders.

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