A Systematic Review of Factors Influencing the Adoption of Conventional and Islamic Syndicated Bank Financing

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Abstract: Syndicated loan adoption has become a significant research area since its evolution in the 1960s. The objective of this paper is to review the factors influencing the adoption of syndicated bank financing between 1984 and 2019. Library research is applied since this paper relies on secondary data by thoroughly reviewing the most relevant literature. The research began with the progressive collection and retrieval of approximately 700 papers published within a thirty-four-year period from 1984 until 2019. The collection and selection process took place within the time span of over two and a half years, from November 2016 until May 2019. The findings of the systematic review revealed that SL adoption was driven by 4 primary intertwined factors which were thematically classified as bank liquidity supply, firm information disclosure, relationship banking and loan characteristics. All these variables were used to predict ISF usage. The study also employed the phenomenology method, as there was much that remained unexplained by the limited availability of the secondary data about ISF. The majority of the recent research on syndicated loans have revealed that bank liquidity supply, firm information disclosure, relationship banking and loan features, influence the banks' participation in a syndicated loan, which in turn ensures a successful issuance. It can, therefore, be concluded that the understanding of factors influencing the banks' participation in ISF remains an unexplored phenomenon, either globally or in Malaysia, which serves as a fertile area for academic research. Thus, there is a critical need to undertake research on this topic so the knowledge gaps can be addressed, and a contribution to the industry through practical recommendations of approaches and strategies can be made.

Keywords: Islamic Syndicated Financing, Bank liquidity supply, Firm information disclosure, Relationship banking and Loan characteristics.

Introduction

The objective of this paper is to review the factors influencing the adoption of syndicated bank financing between 1984 and 2019. Out of the 366 conventional syndicated loan (SL) literature reviewed, only 4 relevant Islamic syndicated financing (ISF) literature can be found. Firstly, the results showed that the syndicated loan subject matter received a substantial increase in attention in this particular era. However, the Islamic syndicated loan topic has yet to garner researchers' interest and thus remains relatively unexplored in academic research. Hence, both topics, particularly Islamic Syndicated Financing, are potential domains to be academically explored in the coming years.

Secondly, the outcomes of the systematic review revealed that SL adoption is driven by four primary intertwined factors, which are thematically classified as bank liquidity supply, firm information disclosure, relationship banking and loan characteristics.

A syndicated loan is one of the debt instruments that has been prevalently used by banks since the 1960s to intermediate the surplus unit with the deficit unit. A syndicated loan refers to the financing plan collectively offered by several banks to a borrower (Simons, 1993; Mugasha. A, 2007). Jones (1999) further elaborated that a syndicated loan is a piece of a more substantial loan set at a limit of at least USD50 million or more. Typically, one bank acts as the arranger and will carve up the loan amount, and other lenders in the syndicate contribute to the carved-up portion.

Wild (2004) and Nini (2004), in contrast, described a syndicated loan as a financing facility offered by a couple or more banks, which forms a syndicate, governed by mutual conditions based upon a single loan contract. Contributing lenders of the syndicate, also known as the participants, pledge to contribute to the assigned proportion of the loan figure and deserve an equal share of payments made by the borrower. The financing agreement is negotiated by a single or a few lenders, and later, more banks will join the syndicate.

Connectively, banks act as intermediaries that provide firms with access to the supply of liquidity through SL; and the extent of the firms' transparency and how much information they disclose determines the financing they receive from the banks. This is because the parties to the SL are bound to invite problems of asymmetric information, thus, potentially leading to adverse selection and moral hazards. Banks tend to mitigate these problems by leveraging on the relationship banking with firms and past alliances with other banks, which in turn, shape the SL contractual design. As a result, the relationship banking among the syndicated stakeholders serves as a key driving factor leading to successful adoption of SL. While this evidence may be applicable to ISF too, there is however lack of proof to support such conjecture. Lastly, the findings also fill the gaps in the current lack of available literature in SL and ISF. These include the lack of qualitative research pertaining to SL and ISF, and the lack of research in the Malaysian context. This paper also presents a thorough list of suggestions for upcoming studies that address the gaps that the previous studies failed to investigate.

Research Methodology

A systematic review was conducted on related articles regarding the reasons that prompt the banks' involvement in syndicated bank financing. The aim of a systematic literature review is 'to appraise, identify, and combine all the empirical proof that fulfil the pre- specified eligibility criteria to answer a given research question' (Cochrane, 2017). Consequently, this study reviewed literature related to SL and ISF extracted from databases. The research began with the progressive collection and retrieval of approximately 700 papers published within a thirty-four-year period from 1984 until 2019. The collection and selection process took place within the time span of over two and a half years, from November 2016 until May 2019. The researcher then filtered and sorted these papers into a smaller group of studies. Only 7 percent or 25 papers related to ISF are found within this period. Consistent with Hutan (2009) and Godlewski (2014), research on ISF is largely ignored by the academic world. In the last five years, 86 percent of the published academic research on syndicated loan and ISF are designed as quantitative studies. Most of these studies rely on the secondary data provided by Bloomberg and Dealogic database platforms, amongst others. Qualitative methodology represented only 2 per cent of the overall reviewed literature and has yet to be utilized by the researchers in order to understand issues relevant to syndicated loans and ISF from the lens of syndication practitioners. The exception is noted for two qualitative studies conducted in 2014 and 2017 by two PhD students. Firstly, in 2014, Ayomi Dita Rarasati of Queensland University, Australia, conducts a study entitled "Islamic Project Financing in Indonesian Infrastructure Development" using the Delphi method based on several rounds of interviews with the industry's experts. Subsequently, in 2017, Schmidt Daniel of the University of Gloucestershire, United Kingdom, conducts a qualitative study for his thesis entitled "Corporate Syndicated Loan Pricings in Germany: An Exploration of the Hidden Drivers". The key component of his research involves a sequence of semi-structured, in-depth interviews involving selected banks of lending professionals in German as the key informants.

Based on the classifications above, it is safe to conclude that there are notable research gaps, such as scarcity of research on ISF, the absence of application of the qualitative methodology, and the primary data.

Findings of the Study

The systematic review has revealed four key themes, which form the basis for the adoption of SL, as illustrated in Figure 1. Further review of each theme is elaborated in the subsequent sub-sections below.

Figure 1: Research framework based on the systematic review

Bank Liquidity Supply

The bank balance sheet that entails liquidity supply plays a critical role in allowing banks to issue SL and ISF due to its large financing size. The liquidity supply is derived from the bank's capital and the deposits placed with the banks, whilst secondary trading allows the bank to improve its liquidity management as and when needed. The liquidity supply is managed by banks according to the regulatory constraint inherent in the equity structure, and it should also match the maturity of liability with the asset components, as supported by previous findings discussed in the following section.

Table 1: Bank Liquidity Supply

Theme	Category	Code
Bank Liquidity Supply (Balance Sheet)	Equity	Regulatory Capital
		Lending Limit
	Liabilities	Currency of deposits
	Assets	Risk and

		portfolio diversification
		Hedging and securitization

Equity: *Regulatory Capital*

The findings from previous studies have proven that in granting a syndicated loan, a bank is constrained by the regulatory capital requirement, which restricts the banks' single counterparty exposure lending limit. As a result, it creates the need for syndicating the bank's debt among banks in the U.S., European, and emerging market economies (Gropp, Mosk, Ongena, & Wix, 2019; Chu, D. Zhang, & Y. E. Zhao, 2019; Irani, Iyer, Meisenzahl, & Peydro, 2018; Kim & Sohn, 2017; Schwert, 2017; Tasdemir, 2015; Yamaguchi, 2015; Iosifidi & Kokas, 2015; Lin, Chen, & Lu, 2015; Cerutti, Hale, & Minoiua, 2015; Howcroft, Kara, & Ibanez, 2014; Dewally & Shao, 2014; Altunbas, 2011; Godlewski & Weill, 2012; Godlewski, 2008; Altunbas, Gadanecz, & Kara, 2005; Dennis & Mullineaux, 2000; Jones et al, 2005; Simons, 1993).

By definition, the regulatory capital requirement is a policy adopted to make sure that the bank's risk exposures are supported by sufficient amount of high-quality capital that absorbs losses on the basis of persistent concern. It is also to ensure that the financial institution has a continuous ability to fulfil its obligations (BNM, 2020). Regulatory capital requirement creates the need for syndication in many ways. The banks seek to lend on a syndicated basis in complying with the regulatory capital exercise. For instance, Gropp et al. (2019) exploited the European syndicated loan data to examine how European banks cope with the 2011 European Banking Authority (EBA) capital exercise that requires a subset of the European banks to achieve and sustain a nine per cent core tier 1 capital ratio. Corroborating the earlier discoveries of Howcraft et al. (2014) and Ivashina et al. (2015) within the same market, Gropp et al. (2019) found that the European banks reduced their syndicated loan issuance to increase the capital ratios; they did not raise the equity levels. The reduction in the syndicated loan supply led to lower companies' investment and sales growth for companies with heavier debt reliance on these banks.

Kim and Sohn (2017) also found that the effect of an increase in the capital on the credit growth of a bank, which is referred to as the net loans growth rate and unused commitments, is positively related to the bank's level of liquidity, but this is solely for large banks. During the recent period of the financial crisis, a positive relationship has become more substantial. The outcome indicated that when large banks retain ample liquid assets, only then will the bank's capital exert a significantly positive effect on lending. Howcraft et al. (2014) emphasized that when banks are pursuing progression or planning to use potential capital surpluses, syndicated lending was favored over bilateral loans. Although, the period of post-crisis saw the European banks avoided the syndicated loan markets, and bigger banks, particularly those with strong capital bases, were abstaining from syndicated lending. These findings supported the classical findings of Godlewski (2008) in the context of emerging market economies, such as Malaysia where the regulatory capital pressures drive the issuance of a syndicated loan.

In the context of ISF, Sholihin (2018) and Farbood Hutan (2009) found similar results pertaining to the limitation in the ISF's deal size compared to SL. Globally, on average, the size of SL is 36.6 percent larger than the average ISF deal size. While the size of an average ISF is about USD170 million, it is about USD232 million for SL. The reason for such distinct difference between the two is that Islamic banks are constrained by the stringent regulatory capital, whilst the small size of the deal serves as mitigation to minimise the effects of agency problems and information asymmetries, which are more prevalent in the ISF market. This can be explained by the fact that in comparison to conventional banks, Islamic banks sustain higher liquidity

(Waemustafa & Sukri, 2016).

Liability: Currency of Deposits

Existing evidences have shown that the banks' ability to participate in syndicated loan issuance is influenced by the availability of foreign currency deposits, which in turn, is affected by factors such as originating market, loan spread, and financial crisis (Gong, Jiang, & Wu, 2018; ; Acharya, Afonso, & Kovner, 2017; Ying Xua & Hai Anh La, 2015; Ivashina, Scharfstein, & Stein, 2015; Yamaguchi, 2015; -). According to Gong, Jiang, and Wu (2018), the effect of foreign currency is likely to be stronger when banks of modern economies are loaning in their country's notes. The syndicated loans are made in markets that have achieved a state of equilibrium where the country's capital account's openness to a borrower is lower, and financial bodies of the borrower's country are under capitalised. Similarly, Yamaguchi (2015) examined the preference of Japanese megabanks to finance international projects and found that megabanks favour financing projects denominated in U.S. dollars (USD) due to the problems of funding in the local currency.

Secondly, Gong & et al (2018) further explained that due to the effect of foreign currency, syndicated loans assigned to foreign exchange are given a lower spread of loan compared to loans given in the local currency for many developing countries. Typically, the effect of foreign currency is probably more robust when banks of progressive economies are loaning in their country's currency. However, Delis & et al (2018) opined that loaning in foreign currencies could expose banks to a significant risk of currency. He stressed that the rise of a one-standard-deviation in the rate of exchange volatility rises the spreads of loan by roughly 20 basis points for loans given in a currency dissimilar to the lenders. This denotes interest surplus of about USD2.55 million for medium-sized loans and duration. In general, this is typically attributed to restrictions of credit and non-conformities of impeccable competition in international loaning markets.

Thirdly, in the context of the financial crisis, Gong, Jiang & Wu (2018) showcased that the effect of foreign currency was more prominent during this period and its aftereffects is due to the spillover effect of easy monetary policy and greater risk of the counterparty. Case in point, Ivashina et al. (2015) presented a model of European banks cut dollar loaning exceeding euro loaning following the shock to their quality of credit. While collecting more euro financing via insured retail deposits, the blow led to more dollar funding withdrawal as these banks depended on wholesale dollar funding. The banks could borrow in euros and exchange the loan to dollars to cover for the dollar shortage. However, if the capital is insufficient to take the exchange, it might cause the abuse of covered interest parity. As such, the borrowing of the synthetic dollar has become costly, resulting in dollar loaning being slashed. The model is even tested in the context of the Eurozone sovereign crisis, which escalated in the second half of 2011 and resulted in the sharp reduction of the United States money market funds' exposure to European banks in the following year. Dollar loaning by Eurozone banks declined as oppose to Euro loaning at this point, and companies became more dependent on the Eurozone banks before the Eurozone crisis became even worse.

Consistent with the above findings, Ying and Anh (2015) studied the 2007-2009 Global Financial Crisis (GFC), and its impact on bank loaning to emerging Asia economies. They discovered that the liquidity channel measured by loaning in foreign currencies was primarily accountable for the GFC transmission to Asia's loan market. The outcomes suggested that the foreign currency liquidity contraction was partly replaced by domestic currency loaning. However, the replacement occurred merely within the banks, and not between banks, because of the exorbitant costs of switching.

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Asset: *Risk and portfolio diversification*

Banks participated in the syndicated loan as a means to diversify the risks inherent to their respective loan portfolios through secondary loan sales. The syndicated loan is distinguishable from loan sales, in which one bank secures the loan and afterwards sells portions of it to other banks. Loan sales can be classified into two distinct forms: “participation” and “assignments”. Participation loan sale generates a new agreement involving the original lender and the loan buyer, and this agreement between the two parties remain unchanged. It is possible that the borrower is unaware of the loan being sold. On the other hand, an assignment produces a new financial obligation between the borrower and loan purchaser, which substitutes the agreement between the borrower and the original lender. These are the distinction between both types of loan sales (Mugasha, 2007). As a result, loan sales are regarded as the secondary intermediation that partly serves as a substitute for underwriting securities (Simons, 1993).

A secondary loan trading gives syndicated lenders the flexibility of buying and selling loans to branch out their loan portfolios (Simons, 1993; Demsetz, 1999). Through loan assignments, syndicate lenders can also comply better with capital adequacy requirements (Pennacchi 1988). However, some primary syndicate lenders have a strong incentive to retain loans on their balance sheet. Syndicated loan holdings may be used by some banks to secure investment banking business from the borrowers. Nevertheless, the importance of a secondary market should not be undermined. Eventually, it possibly could offer the benefits of risk management, for example, when the bank encounters a change in shareholders' risk appetite or liquidity crunch (Vu & Du, 2014).

Cerruti et al. (2015) suggested risk diversification as a driving motive for syndication. Similarly, Altunbas et al. (2011) also confirmed that banks typically decided to participate in loan syndication if their level of capital is adequate to support the additional risk taken and driven by risk diversification through the subsequent loan sales. The need for risk diversification often arises from the fact that higher credit risk banks are often linked to high-risk businesses that are less lucrative with lower market value. In contrast, higher risk-weighted capital ratio banks have a tendency to give loan to high-risk businesses with less market value (Iosofidi & Kokas, 2015). Notably, lead banks with more liquidity risk cut their share, leading to borrowers’ poorer performance. Nevertheless, the quality of credits that they choose to syndicate is not affected by their liquidity risk (Mora, 2014).

Table 2.3 Firm Information Disclosure

Theme	**Category**	**Code**
Firm Information Disclosure	Financial disclosure	Firm’s Financial Statement and Accounting Quality
		Audit Firms
		Firm’s Credit Rating
		Choice of Debt
	Managerial behavior	Firm’s CEO Entrenchment
		Managerial Overconfidence
	Shareholders’ And Rights	Shareholders’ Rights
		Non-Listed Firms

	Ownership	Family Owned Firm
	Ethical Values	Ethical Behaviour
		Corporate Social Responsibility
		Religiosity
	Corporate Governance	Disclosure Policy
		Governance Practices
		Media Coverage

Financial Disclosure

Firstly, in the context of financial disclosure, the firm's external auditor's role is crucial in augmenting lending efficiency through the minimisation of information asymmetry between the borrowers and syndicated lenders (Ma, Stice, & R. Wang, 2018; Y. Zhang, Sun, & Xian, 2017; Enkhtaivan, 2016; Chin, Yao, & P. Y. Liu, 2014). Reputable auditors with industry expertise possess better competency for enhancing the accounting information quality in comparison to other average auditors. Contrary to non-specialist auditors, industry specialist auditors are well-versed in accounting policies and specialised in covenants for specific industries; thus, the latter can provide better assurance.

For instance, in recent research conducted by Ma, Stice, and R. Wang (2018), a massive number of samples of non-US public companies from 31 countries that had secured syndicated loans are involved. They discovered that syndicated loans are extended to borrowers who hired topmost reputable auditors who had bigger and less concentrated syndicate. In such formation, the lead arrangers and biggest investors held the loan's lower percentage after its issuance. However, this scenario is seen in countries with solid creditor's rights and strong societal trust, indicating that in order for lenders and borrowers to reap the benefit of differential audit quality on the loan syndicate's structural efficiency, good informal and formal institutional factors are required. Moreover, they found that the borrowers who had more significant problems of information asymmetry benefited from the loan syndicate structure. These findings supported earlier studies by Y. Zhang, Sun, and Xian (2017) and Enkhtaivan (2016) that even though the U.S. firms employ industry-specialist auditors, they tend to enjoy lower interest rates and offer fewer covenants and less requirement for collateral as a result of better audit quality that helped to reduce information asymmetry.

The finding demonstrated the importance of employing reputable auditors as they help to improve the quality of a firm's accounting reporting and financial statement. Fang, Li, and W. Zhang (2016), L. Song (2016), L. Song and Tuoriniemi (2016), and Chen, Chin, Wang, and Yao (2015) identified that the quality of the firms' accounting reporting that influences the banks' participation in the syndicated loan issuance. Specifically, Fang, Li, and W. Zhang (2016) found that in the U.S. market, the financial statement comparability is negatively related to the spread of loan and the pledging collateral probability, and positively related to loan maturity and the probability of performance pricing provisions in the contracts of loans. Borrowing companies with superior comparability of financial statement could complete the process of loan syndication relatively fast, allowing the lead lenders to keep lower percentages of the loan shares, and entice many lenders, specifically, the numerous uninformed participating lenders. The finding proposed that the comparability of the financial statement role in easing information asymmetry within the syndicated loan market is imperative.

Managerial Behaviour

Secondly, a firm's key management personnel also have influence over the banks' participation in a syndicated loan. Companies with entrenched CEOs are likely to have a more intense conflict of interest between the shareholders and managers due to the CEOs' inclination towards empire-building, undue self-compensation, and self- indulgence. Moreover, past studies documented that entrenched CEOs have the tendency to participate in an investment that would expand their influence and be involved in acquisitions that destroy value. In a worst-case scenario, it could involve corporate assets theft. Typically, entrenched CEOs wasted corporate resources by means of extreme self-compensation or self-indulgence (Myers & Rajan, 1998; Opler et al., 1999. Thus, where syndicated loans is extended to firms with entrenched CEOs, the number of participant lenders and their share in the loan are smaller; the lead arranger retains a larger loan share. Further, these loans are held more closely (in a more concentrated manner). Foreign lenders are less involved in these loans; the number of foreign lenders and their shares in the loan are both smaller. The results are mainly driven by loans syndicated by non-dominant lead arrangers (Elyas Elyasiani & Ling Zhang, 2017).

Shareholders' Rights and Ownership

The third financial disclosure is the firm's shareholders' rights, which have an influence on the banks' participation in syndicated loan issuance. Generally, shareholders and debtholders of a firm often have conflicting objectives (Jensen & Meckling, 1976. The root of the shareholder-debtholder conflicts is the different nature of cash-flow claims that they are each entitled to. The actual power possessed by the shareholders depends primarily upon the specific rules of corporate governance (Gompers, Ishii, & Metrick, 2003). Hence, Han (2017) had proven that stronger shareholder rights could significantly enhance the stringency of loan contract design. The likelihood of having collateral will significantly increase in tandem with the strength of the shareholders' rights. The loan maturity of firms with the strongest shareholder rights is 13.1 percent shorter. In comparison, the loan size of the same borrowing firms is 8.4 per cent smaller. This implies that the impact of the shareholders' rights on loan pricing has crucial implications in understanding the impact of companies' governance structure on loan contract design. It should be noted that the shareholders' effects on the banks' participation in the syndicated loan differ between family-owned companies and dual-owned companies. In the context of family-owned companies, Lagaras and Tsoutsoura (2015) claimed that the loan spreads would increase during a financial crisis, yet for family companies, this is 24 basis points lower. In addition, the spread gaps are more extensive between family and non-family companies that had pre-crisis relationships with lenders who are well-exposed to the shock. The evidence conformed to family-owned companies, which subsequently lower the cost of access to debt financing, particularly when the lenders are constrained. The findings also indicated that 17 percent of the family companies, lenders enforced explicit restraints in the private credit agreements requiring the founding family to retain a minimum percentage of ownership or voting power. As such, lenders indicated that the presence of the family is valued. Besides, companies that are managed by the family's CEO and have higher ex-ante agency conflicts received a higher impact of family control on lowering the cost of bank debt.

Corporate Governance

Fourthly, the firms' corporate governance had evidently exhibited a strong influence in inviting the banks' participation in syndicated loans. Hassan et al. (2015) showed that if borrowers practice higher standard in their policies of disclosure, lead banks would maintain smaller possession and form a loan syndicate that is less concentrated. Foreign participants would be selected by lead banks to involve in a loan syndicate, and they are likely to maintain more ownership if the borrowers hold high disclosure rankings. The findings indicated that companies with better governance have a more significant relationship with regards to corporate disclosure and bank loan syndicates association. Hasan and L. Song (2014) and Lin, Chen, and Yen (2014) demonstrated that companies that practice higher disclosure policies could secure bank loans with added terms of a loan contract that are favourable to them, such as bigger sums, lengthier maturity, and lower spread. Furthermore, the disclosure impact on the bank loan agreement is more prominent for borrowers that have higher firm-level non-disclosure governance, or companies situated in a nation that has superior country-level governance.

Ethical Values

The fifth financial disclosure concerns the fact that all the factors mentioned above could influence a firm's value. Past evidence had proven that this value, in turn, has an impact on the banks' participation in the issuance of a syndicated loan. He and Hu (2016) noticed that corporate borrowers in countries where religiosity level is high would be charged with lower interest rates, awarded bigger amount of loans, and fewer loan agreements. The results suggested that the borrowers' corporate culture determine the cost and availability of bank loans. Similarly, Kim, Surroca, and Tribo (2014) claimed that the firms' ethical behaviour could determine the lending bank's decision to ease the conditions of financing when setting the rates of a loan. The facilitation of financing is enhanced further if the lenders and borrowers share some similarities in the ethical domain as the connection promotes a sense of familiarity and trust in non-opportunistic behaviour. Such trust would contribute to lower the frictions of information. The analysis data consisted of 12,545 syndicated loan facilities across 19 countries within the period between 2003 to 2007, Kim, Surroca, and A.Tribo (2014) had proven that there was a 24.8 per cent drop in the mean spread with one standard deviation increase in the degree of the borrowers' ethical behaviour from its mean value. The drop was further improved to 37.6 per cent when the lenders acted ethically as well.

Relationship Banking

Relationship banking is a key driving factor that bridges the two factors above, namely the bank's liquidity supply and firm's information disclosure, as it mitigates information asymmetry that exists between the two, which invites participation in the syndicated loan issuance.

Table 2.4 Relationship Banking

Theme	**Category**	**Code**
Relationship Banking	Bank-firm relationship	Mitigating information asymmetry/low transaction cost
		Repetitive deal mandate
		Relaxation of loan covenants
		Larger investors participation
		Relationship Manager
		Access to liquidity during a financial crisis
	Syndicate banks past alliances	Information production and sharing
		Lead arranger's share of participation
		Lead arranger's reputation
		Monitoring cost
		Lending expertise

Bank-firm Past Relationship Information

Relationship banking facilitates the issuance of the syndicated loan by mitigating information asymmetry. It allows banks to learn through repeated interactions with the firms concerned, which will eventually reduce information asymmetry. The repetitive engagements enable banks to obtain private information regarding the borrower's quality while screening the loan at the origination stage, monitoring the loan's performance, and that some of the ensuing surpluses can be shared with the relationship borrowers. Therefore, banks can offer a more competitive interest rate and cheaper transactions fees. These are evident in recent studies conducted by Botsch and Vanasco (2015, 2019) who examined the implications of asymmetric information and bank learning through repeated engagements. Based on an analysis of a dataset involving 7,707 syndicated loans, they produced robust, up-to-date evidence from which banks acquired valuable personal information about borrowers through relationship banking. They confirmed that the effort made by private banks to learn about the quality of a company benefits borrowers of higher quality, who will consequently get lower rates of interest for the successive loans. Specifically, as higher quality borrowers develop a relationship with the lenders, the former face lower spreads, while lower-quality borrowers saw the prices of their loans escalate and the amount of loan decline. They also found indicative proof that banks integrate CEO-specific information into the prices of loan.

These findings are consistent with Berg, Saunders, and Steffen's (2016) findings and Herpfer (2018) who have earlier showcased the implications of relationship banking in lowering the borrowing costs for a sizeable borrower in the context of US syndicated loan market.

Repetitive transaction through winning a deal mandate

Relationship banking provides an immense network for banks to win syndicated loan mandate, undertake lead arranger role, and deepen relationship investment over time. These positive effects are demonstrated by Jianxin Zhao (2017) who proved that prevailing banking relationship between a bank and a well-connected borrower also increases the probability of the bank winning a loan syndication mandate from a company that is linked to the well-connected borrower. In this instance, banks will offer a lower spread of loan to compensate for the well-connected borrowers with more extensive board networks because the borrowers are providing opportunities to the lenders to sell loans to companies in their networks. In addition, a connected banks' probability of winning loan business from a company in its existing borrower's network is greater if the company is informationally opaque.

Relaxation of syndicated loan covenants

Relationship banking relaxes syndicated loan covenants as proven by Prilmeier (2017, 2013) who studied the impact of the loaning relationship on covenant selection. The study employed a large sample of corporate loans and established that the borrower's monitoring benefits are traded with covenant-created hold-up costs, such that the impact of loaning relationship intensified the figure of agreements. The agreements consisted of a loan with covenant tightness addressing information asymmetry concerns, hence agreement tightness is eased during the period of a relationship, particularly for opaque borrowers. Borrower monitoring benefits are traded with covenant-created hold-up costs, such that the impact of loaning relationship increased the number of covenants involved in the loan with agreement tightness addressing information asymmetry concerns. In other words, tightness is eased throughout the relationship (Prilmeire, 2013) Finally, the study's finding supported the fact that banks are more efficient monitors than bondholders, bank syndicates are less dependent on corporate governance monitoring unless they have dispersed ownership.

This finding supported earlier evidence contributed by Bushman, Smith, and Moerman (2010) who identified that borrowers disseminating personal data to lenders happened in the early stage of the cycle with companies demonstrating relatively early discovery of price in the secondary loan market.

Inviting a larger pool of local and foreign investors

Pieces of evidence suggested that throughout the duration with which relationship banking deepens, it increases the likelihood of local and foreign banks participation in the syndicated loan issuance. For instance, Huang, D. Zhang, and Y. E. Zhao (2017) examined how a third-party bank relationship could affect the loan syndicate structure. They used syndicated loans sample issued to private equity (PE)-backed initial public offering businesses, and they found that the lead bank and borrowers' PE company's stable relationship allowed the lead bank to maintain a lesser loan percentage and formed a more prominent and less concentrated syndicate, mainly when the borrower is less transparent. More foreign bank participation can be achieved through a stronger PE-bank relationship. These outcomes suggested that the lead bank and large equity holder of borrower relationship expedite the production of information production loaning.

Allowing firm access to liquidity during a financial crisis

Donker, Ng, and Shao (2018) used a sample of syndicated loans data to further demonstrate that relationship bankers can benefit their clients even after they indicate distress. It is proven that when a firm's profitability is declining, borrowing from relationship bankers could lower the spread of loan by 17 basis points in comparison to borrowing from non-relationship bankers. Thus, relationship bankers benefit from their borrowers. Furthermore, borrowers often opt to maintain their relationship bankers due to more favourable loan costs, terms and higher costs of switching lenders, and the risk management support value. In the long run, the borrowers reduce their default risks and improve their profitability after the profit warning. These implied that relationship bankers used client's data efficiently to provide effective financial intermediation, even after experiencing distress.

Syndicated Banks Past Alliances Information Production and Sharing

The history of lending is deemed significant by the bank in its decision to participate in a new syndicated loan. There is a competitive edge to loan originators who have access to other personal information about the potential participants' lending intentions (Wild, 2004). The probability of the formation of a syndicate is positively associated with the borrower's good name, as indicated by the previous size of its participation in syndicate cooperative relationship. It is undetermined that within a company's previous participant banks, the more prior links or past partnerships a borrower has, the more probability a syndicate lending relationship of the borrower and the bank or lead arranger can be established (Cornilissen, 2016).

Corwin and Schultz (2005) claimed that interbank relationships are crucial in establishing future syndicates. The continuing relationships between the participating banks "meant to minimise free-riding and issues of moral hazard in syndicates when members are anticipated to be actively involved in the production of information and in marketing the deal" (2005, p. 481). If the underwriter was part of a previous syndicate led by the same book manager, it is more likely to be part of a syndicate.

In a social network framework, recurrent exchanges are eventually and directly aimed at resolving the problems of informational asymmetries as they promote confidence and reciprocity. Indeed, prior relationships among lenders ease the agency's cost of syndication and the informational frictions. Hence, past relationships of syndicate members significantly affect the likelihood of syndicating a deal together (Champagne & Kryzanowski, 2007). Typically, the relationship is a mutual arrangement in that lenders retain a solid relationship with the members and swap functions in the following joint syndications (Cai et al, 2018). In addition, a study conducted by Bulbul (2013) demonstrated that strong dealings with focal organisation corroborate trust-building within a network. Meanwhile, Houston et al. (2017) asserted that associated banks would most probably be a partner in the loan syndicates, and the network's central banks will most probably lead or co-lead big syndicates. Stronger relations among the lenders would lead to improved sharing of information, and more central banks within a network will act as "intermediaries among intermediaries" (Godlewski & Sanditov, 2017).

Lead arranger reputation

The previous relationship among participant banks and borrowers and the number of lenders in a syndicated loan are positively related to the probability of joining a syndicate. The syndicated relationship strength of the two lenders is highly influenced by the lead bank's reputation. Home bias is also apparent in lenders' syndicate alliances (Champagne & Kryzanowski, 2007).

The network of syndicated lenders revealed a temporally escalating frequency, and the number of links between lenders can enhance the network's intricacy. Small- world features are apparent in universal networks and sub-networks. The network advancing spreading and the new lender's local insertion in the network led to a raise in the clique's' number or size. The structures of the small-world system are beneficial for information communication across the actors. Nevertheless, the fragility of the network can be affected by the structure of the small world, because, through clustering and proximity, a local problem could turn into a global issue. For instance, the syndicated bank loans of a French market are a 'small world' characterised by lenders of short social distance and significant local density. Its structure of network promotes a smooth flow of resources and information between the banks; hence, their social capital is enhanced. Therefore, lenders' experience and good name serve as an essential function in decreasing the spreads of loan, which in turn, expands the borrower's affluence (Godlewski & Sanditov, 2017

Monitoring Cost

There is various reason why network formation is important, and a couple of the reasons are relevant to the discussion. First, the fundamental question is whether the "right" networks can be formed. Given that the networks have significant implications on the behaviours, and that relationships have externalities, there must be an understanding on the extent to which networks that are formed in a decentralised manner end up being efficient from the society's standpoint. For instance, a central theme in Jackson and Wolinsky's (1996) study was the network differences that took shape when individuals chose their relationships and the networks that maximise the overall value between the stakeholders and the transactions (Matthew O. Jackson, 2014).

Past banking relationships are related to the characteristics of the observed loan across different loaning syndicates. When a loan is shared among multiple lenders, an additional element of moral hazards exists between the lead lender, the primary monitor of the loan (Holmstrom & Tirole, 1997), and the other members of the syndicate. Moral hazard occurs because syndicate members' ability to screen and monitor the loan, differed. The whole costs of monitoring the loan are the responsibilities of the lead lender, but its share of the loan is less than one hundred per cent. Past relationships reduce the cost of future monitoring, which is deemed as a commitment to monitor, and it can alleviate the moral hazard problem of the syndicate. The previous relationships of the lead bank are linked with lower spreads in high moral hazard syndicates, which highlight the essential role that financial intermediaries play as the firms' monitors (Allen et al., 2012).

Lenders (i) rely on the non-financial contracts network as a mechanism to control the cost of the agency, and the risks of the project, (ii) are not keen to price credit more competitively if the sponsors are involved as project counterparties in the relevant contracts, and finally, (iii) are not appreciative of the involvement of sponsor as a contractual counterparty of the special purpose vehicle when determining the leverage level (Corielli, Gatti, & Steffanoni, 2010). Bank loan overlapping portfolios are further increased by loan syndication, and it makes them more vulnerable to contagious effects. Although banks seem to be diversifying by syndicating loans to other banks, it increases the systemic risk of the financial system, because the banks would become similar to one another. The interconnectedness is positively correlated with the systemic risk measures, and such a positive correlation mostly arises from an elevated effect of interconnectedness on systemic risk during recessions (Cai, Eidam, Saunders, & Steffen, 2018).

Lending expertise

Banks are chosen by the lead arrangers based on their similar focus in terms of lending expertise, i.e., close competitors and these banks are given more senior roles in the syndicate. Thus, larger loan shares are allocated to more senior syndicate members. Borrowers, especially those with more severe information asymmetry, benefit from such an organisational design by paying lower interest spreads. Syndicate members who are close to the lead arrangers have been delegated with some responsibilities such as screening and monitoring, and thus, they can lower the overall loan syndication's costs (Cai, Eidam, Saunders, & Steffen, 2017). Banks that partnered with close competitors are inclined to acquire higher returns on the assets, which interestingly are not a result of higher operating profit margins, but from the significant reductions in interest expenses (Cai, Saunders, & Steffen, 2018).

Loan Features

Syndicated loan contractual features are designed in response to mitigating information asymmetry between the lead bank and borrowing firm and between the lead bank and participant banks, which otherwise lead to adverse selection problems and moral hazard. These features play an essential function in inviting the lead bank and participating banks' involvement in syndicated loan issuance (Godlewski & Weill, 2012). Past evidence has showcased several key driving terms that affect syndication loan design, such as loan maturity, loan purpose and size, loan spread and loan covenants.

Table 2.5 Loan Design

Theme	**Category**	**Code**
Loan Design	Commercial terms	Interest Rate
		Pricing & Yield
		Fees
		Tenor
		Purpose - Merger and Acquisition
	Legal terms	The concentration of Lenders' Rights
		Loan Covenants
		Multiple Renegotiations of Loan Terms

Commercial Purpose

First, in the context of purpose and size of the syndicated loan, firms typically issue syndicated loans to fund big-ticket transactions, such as merger and acquisitions (M&A) and infrastructure funding, which entails large capital requirement. As such, depending on the types of lenders, the incentives to participate in syndicated loans tend to vary. Jianning (2015) posited that given the different types of lenders in the syndicated loan market, either relationship lender, transactional lender, institutional lender, or reputable lender, each of them has different incentives to monitor their respective borrowers and different purposes to engage in syndicated loans. By employing M&A syndicated loan issued in the U.S. market, he confirmed that in the merger wave, many acquirers raised funds by borrowing syndicated loans to fund their M&A deals (Huang & et al, 2012). M&A deals experience better post-merger operating performance and creditworthiness as they are financed by syndicated loans, by relationship lenders and by reputable lenders. In contrast, M&A deals financed by institutional lenders experience more unsatisfactory post-merger operating performance and more reduced creditworthiness, and transactional lenders have almost no impact on the borrowers' post-merger operating performance and creditworthiness. In addition, the banks' monitoring of borrowers does not enhance the company's value to the extent that the acquirers' shareholders can benefit (Huang et al., 2012).

Furthermore, banks are incentivised to participate in syndicated loans for M&A as the benefit is not just a one-off, but it can also offer leverage based on the firms' information gathered from the M&A deals. This can be accomplished by evaluating these loans on the basis of the loan credit default swap (LCDS) and by offering better rates. LCDS is the type of credit derivative in which the credit exposure of an underlying syndicated loan is exchanged between two parties. For instance, by employing syndicated loans funded M&A deals to data involving the U. S. and Western European firms, Silva et al (2015) confirmed that LCDS rates assimilate the information obtained by major banks while providing M&A investment banking services prior to the operation announcement.

Legal Terms

The relative bank participation and non-bank institutions did not only influence pricing and quantity but fundamentally affect the contract covenants plan. Saavedra (2018) investigated if and how the size of a syndicate determines the type of covenants used in debt contracts. Past theory and verification suggested that renegotiation considerations from coordination difficulties in large syndicates and intertemporal transfers were due to relationship lending in small syndicates. These are fundamental factors in the covenants' structure. He found that for large syndicates, the lenders and borrowers avoid using the flexibility-reducing covenants that are more likely to impact negatively on the value-enhancing corporate policies in developed countries. The effect is stronger when the borrower has fewer options for outside financing.

Moreover, large syndicates contracts are more likely to have more covenant slack including tailored capital expenditure covenants, performance pricing provision, and primarily rely on covenants that are directly linked to the current performance of the borrower, which suggest low lead bank's share. This finding is consistent with Mora (2014), who verified that covenants are paired with a higher lead share, and loans with more covenants show higher sensitivity between the share and the borrower's ex-post performance.

Conclusions and Suggestions for Future Research

Much of the research on the development of syndicated bank financing is focused on SL market in the United States and European countries. There has yet to be a study documenting the development of the Islamic alternative of SL, which is ISF, even in a pioneer Islamic finance country such as Malaysia. Given the rising importance of ISF locally and internationally, it is of fundamental importance to understand its functionality, development status and the dynamics of this market in Malaysia, which practices DBLM as it co-exists with the conventional banking and SL market.

Most of the research on syndicated loan focused on the intertwined theoretical problems of agency, information asymmetry, adverse selection, and moral hazard. However, there is an almost complete absence of primary studies on industry-based problems facing the SL and ISF market from the practitioners' perspectives. The lack of research is evident even more so in the context of Malaysia, where the ISF market operates in parallel with SL. Hence, there is a need to explore, identify, and document the actual problems faced by the industry that is departed from the aforementioned theoretical problems in addressing the knowledge gaps and paving the opportunity for future research.

The majority of the recent research on syndicated loans have revealed that bank liquidity supply, firm information disclosure, relationship banking and loan features, influence the banks' participation in a syndicated loan, which in turn ensures a successful issuance. However, these pieces of evidence are limited to supporting the syndicated loan phenomenon in western countries such as the United States, European, and a few emerging market economies. These factors have yet to be studied in the context of ISF market in Malaysia based on the views of the industry's practitioners. It can, therefore, be concluded that the understanding of factors influencing the banks' participation in ISF remains an unexplored phenomenon, either globally or in Malaysia, which serves as a fertile area for academic research. Thus, there is a critical need to undertake research on this topic so the knowledge gaps can be addressed, and a contribution to the industry through practical recommendations of approaches and strategies can be made.

Given the maturity of the syndicated loan research, the majority of the research adopted quantitative methodology by employing secondary loan data extracted from syndicated loan databases, such as LPC Dealscan, Bloomberg, and Dealogics. In contrast, the ISF research domain is still underexplored and at its infancy. Thus, a phenomenology research design needs to be adopted to fully comprehend this new research phenomenon. In doing so, this study has to employ semi-structured interviews with syndication experts to uncover views that would be thematically analysed and classified. The analysis would be guided by a conceptual framework developed earlier.

With the exception of Godlewski's (2014) work, there is an almost complete absence of research on factors influencing a firm's choice for ISF. As the present research is designed to study the perception of banks on ISF, it is fundamental to acquire the views of other key stakeholders in ISF as a form of triangulation. The objective is to minimise bias and broaden the understanding of the research subject based on multiple stakeholders' perspectives.

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