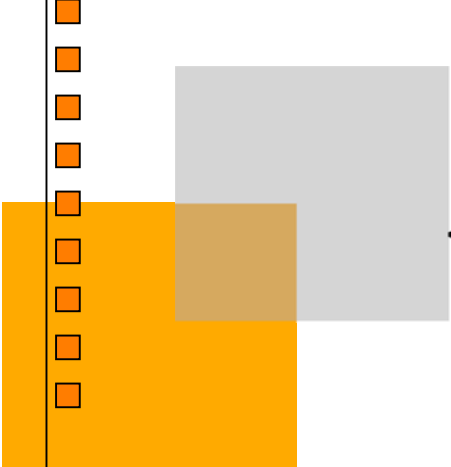


Connecting Credit Grantors and Credit Requestors

Towards the Electronic Exchange of Rating-
Relevant Information

Sebastian F. Martin
Stefan A. Blumenberg



E-Finance Lab,
Johann Wolfgang Goethe-Universität
Mertonstr. 17, D-60054 Frankfurt
{smartin | blumenberg}@wiwi.uni-frankfurt.de

www.efinancelab.com

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- Research Object and Research Question
 - Theoretical Grounding and Methodology
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- ▶ Overall research focus is on the identification and design of **IS-supported interfacial areas** between financial service providers and SMEs.

- ▶ Paper focus: Basle II-driven integration of banks with SMEs
 - ▼ Banks need to assess the credit-requestor's risk class
 - ▼ SMEs provide information in a paper-based manner

- ➔ Banks as well as SMEs may **profit from an IoS-based flow of rating-relevant information.**

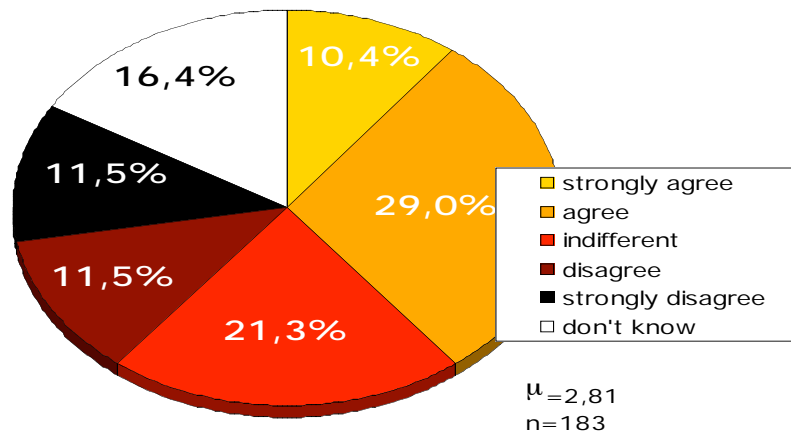
- ▶ Through Interorganizational Systems (IOS),
 - ▼ banks can assess the risk class more accurately and thus encounter less risk;
 - ▼ SMEs may profit from the improved risk assessment
 - by getting better credit conditions due to lowered risk of banks
 - banks can provide SMEs with valuable information about rating-relevant figures that can be improved

Motivation:

Results of a preliminary study (1/2)

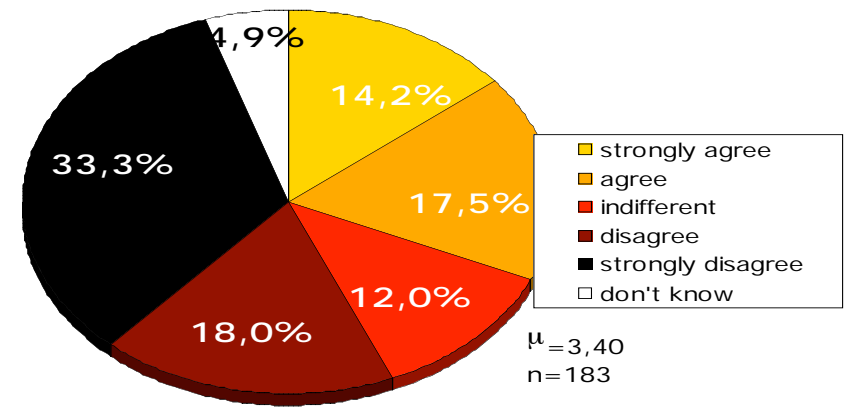
Scenario: SMEs grant their credit providing banks automated access to their internal rating-relevant figures resulting in improved risk rating for banks.

In future, Basel II will lead to pressures from banks on credit requestors to agree in such cooperations.



39,4% of the SMEs expect **banks to exert pressure** on them in future to transfer rating relevant information via IOS.

Our company would be basically willing to grant banks access to selected rating relevant information through automated interfaces.

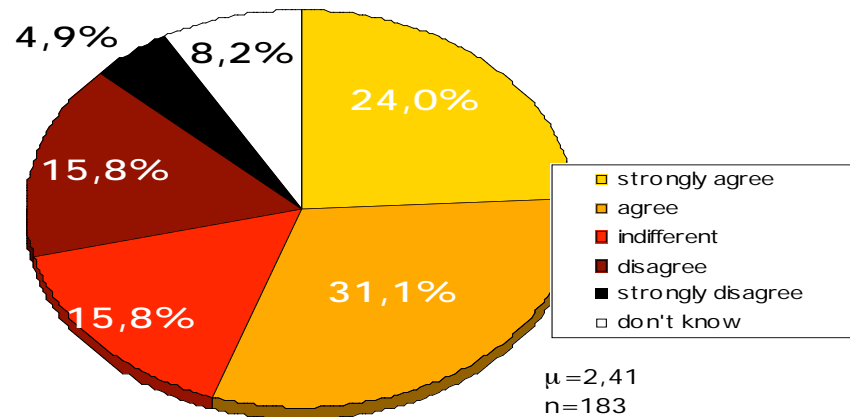


31,7% of the SMEs are **basically willing** to grant banks access to selected rating relevant information through automated interfaces.

Motivation:

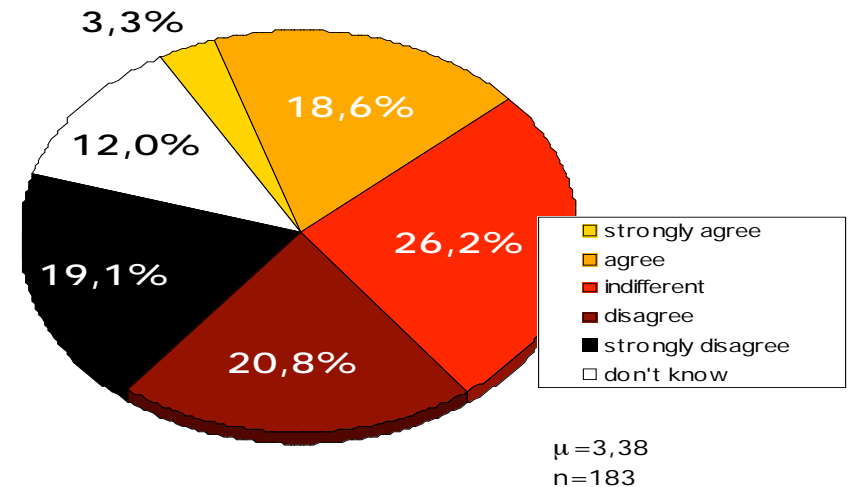
Results of a preliminary study (2/2)

The risks that occur from granting banks access to selected internal firm data are perceived as being high.



More than 50% of the SMEs **perceive high risks** by granting banks automated access on their internal figures.

Overall, such a cooperation would be (after considering all pros and cons) beneficial for our company.



Only 21,9% **expect positive net benefits** by an automated information transfer, another 26% are indifferent.

- ▶ Encouraging results of the preliminary survey determined us to develop the „Basel II-scenario“ and discuss it with SME financial executives.
- ▶ What factors may affect the willingness of SMEs to adopt IOS for the purpose of providing banks with real-time, rating-relevant information?

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Related Research: 1. Adoption of Innovations (1/2)

- ▶ Conceptually, the adoption of IOS for rating purposes represents, from an SME's point of view, an **innovation adoption**.
 - ▼ *“An innovation is an idea, practice, or object that is perceived as new by an individual or other unit of adoption”* [Rogers, 2003].



Prior works on organizational adoption of innovations provide a **suitable theoretical framework** for analyzing adoption of IOS for rating purposes.

Related Research: 1. Adoption of Innovations (2/2)

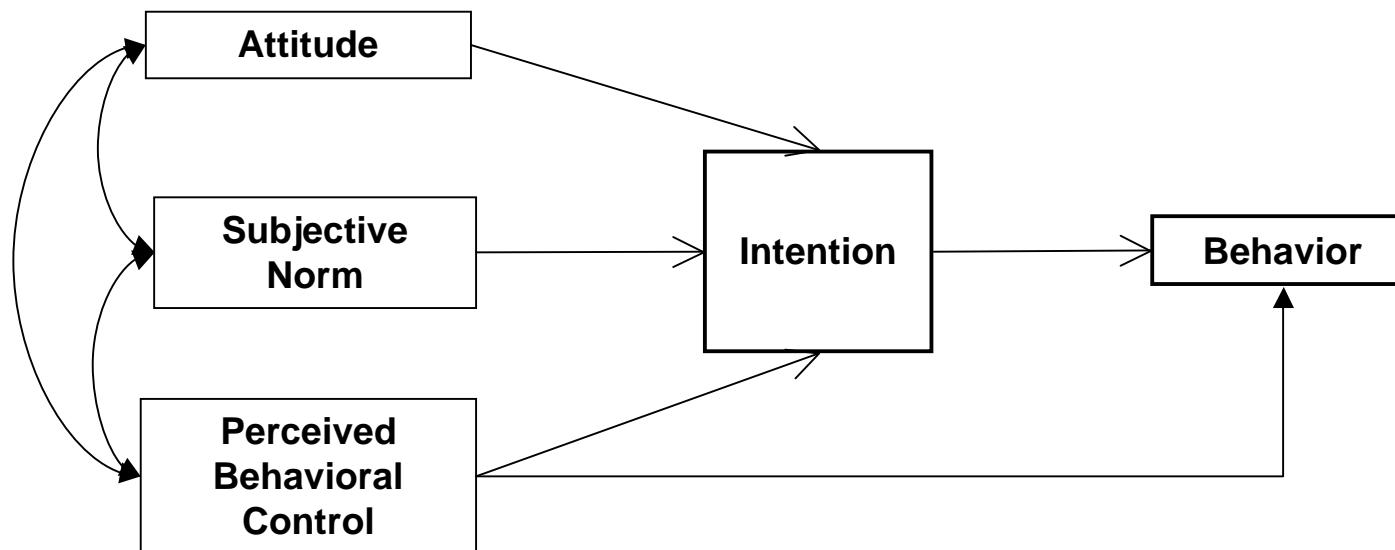
- ▶ Two stages of organizational innovation adoption [Zaltman et al., 1973; Frambach and Schillewaert, 2002]:
 - ▼ **Pre-adoption (initiation) stage**: becoming aware of the innovation, evaluation, attitude and willingness formation.
 - ▼ **Post-adoption (implementation) stage**: adoption, adaptation, acceptance



This research is positioned within the **initiation stage** of organizational adoption.

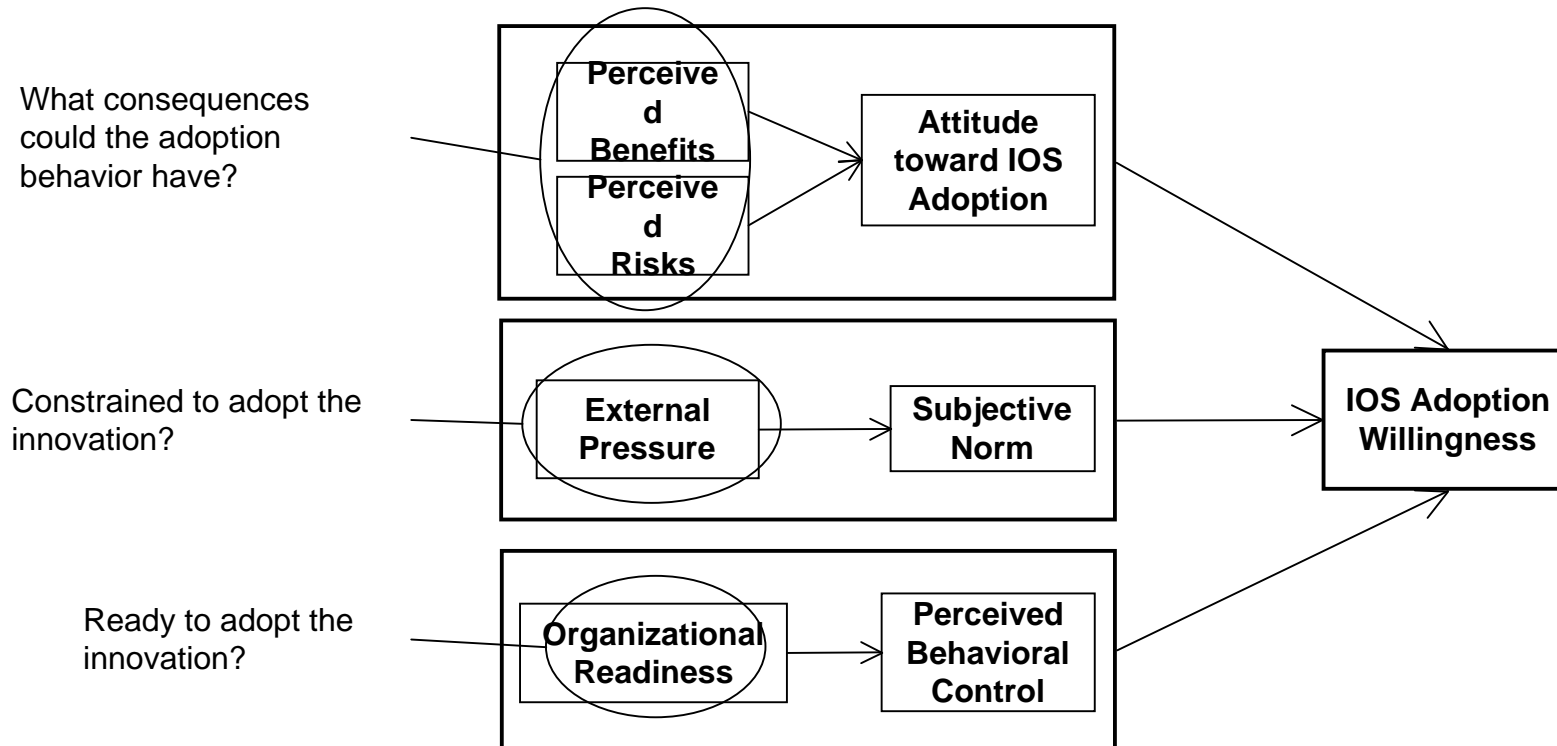
Related Research: 2. Theory of Planned Behavior (TPB)

- ▶ TPB explains individual behavior
 - ▼ Attitude is the degree to which performance of the behavior is **positively or negatively valued**. (Ajzen 1991)
 - ▼ Subjective norm is the perceived **social pressure** to engage or not to engage in a behavior. (Ajzen 1991)
 - ▼ Perceived behavioral control refers to people's perceptions of their **ability to perform a given behavior**. (Ajzen 1991)



Source: Ajzen, I. (1991): The theory of planned behavior, *Organizational Behavior and Human Decision Processes* Vol. 50, pp.179-211.

- ▶ Combining conceptual factors of TPB with findings from literature on organizational innovation adoption
- ➔ Application of the TPB on an organizational level.



- ▶ Focus of research: **development of hypotheses** by means of exploratory research. (as supported by Yin 2002)
- ▶ After the design of the research model based on literature, it has been **discussed within six case studies** with SME representatives.
- ▶ **100 German SMEs** have been contacted
- ▶ **Financial executives of six SMEs** agreed to participate in interview-based case studies.

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▶ **Perceived Benefits**

- ▼ **Five out of six** companies confirm perceived benefits to influence their adoption decision
 - Two believe an automated information transfer will provide them with better credit conditions
 - Three companies expect negative benefits resulting from high implementation and integration efforts

▶ **Risks**

- ▼ **Nearly every company** confirms that risks influence their adoption decision
 - Four expect a reduced communication with banks and a resulting misinterpretation of their rating-relevant figures
 - Privacy risks are perceived as high, companies fear the transparency towards banks
 - More than 50% of the interviewed managers have a negative „gut feeling“ towards banks
 - Especially companies led by their owner have a special distrust of banks

▶ **External Pressure**

- ▼ Banks did not yet asked companies to introduce an automated data transfer
- ▼ Three do not expect future pressures because banks are in a too weak market position or perceive this approach to be too theoretical

▶ **Organizational Readiness**

- ▼ Three have a high organizational readiness whereas three are not organizational ready

- ▶ **Two out of six** companies state their positive willingness to automatically transmit rating-relevant information to the bank
 - ▼ One of these managers had a strong banking background
- ▶ **Three are reluctant** to adopt an IOS
 - ▼ Reasons are mainly high perceived psychological risks

- ▶ Model may be incomplete (relevant factors may be missing)
- ▶ An embedded IOS solution in the Basel II context is not yet available.
- ▶ View of banks has not yet been explored in a structured manner.

- ▶ All factors have been perceived to be relevant by our interview partners.
- ▶ Perceived risks and perceived benefits are regarded to be slightly more important than the other factors.
- ▶ SME executives cannot imagine further factors that could influence their willingness to adopt IOS for rating purposes.

- ▶ Investigation of banks' view of the proposed business scenario
- ▶ Possible extension of research model based on more case studies with both sides (banks and SMEs)
- ▶ After model completion, a field survey for testing hypotheses will follow.



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Sebastian F. Martin
Stefan A. Blumenberg
{smartin | blumenberg}@wiwi.uni-frankfurt.de