Connecting Credit Grantors and Credit Requestors
Towards the Electronic Exchange of Rating-Relevant Information

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Agenda

- Research Object and Research Question
- Theoretical Grounding and Methodology
- Discussion
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.

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

39.4% of the SMEs expect **banks to exert pressure** on them in future to transfer rating relevant information via IOS.

31.7% of the SMEs are **basically willing** to grant banks access to selected rating relevant information through automated interfaces.
More than 50% of the SMEs **perceive high risks** by granting banks automated access on their internal figures.

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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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.
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.
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)

Combining conceptual factors of TPB with findings from literature on organizational innovation adoption

Application of the TPB on an organizational level.

What consequences could the adoption behavior have?

Constrained to adopt the innovation?

Ready to adopt the innovation?
Methodology

- 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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Case study results: Importance of the influencing factors (1/2)

**Perceived Benefits**
- **Five out of six** companies confirm perceived benefits to influence their adoption decision
  - Two belief 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
Case study results:
Importance of the influencing factors (2/2)

- **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
Case study results: IOS adoption willingness

- **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
Limitations

- 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.
Conclusion

- 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.
Further Research

- 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.