



Intellectual Capital for  
Communities  
In the Knowledge Economy

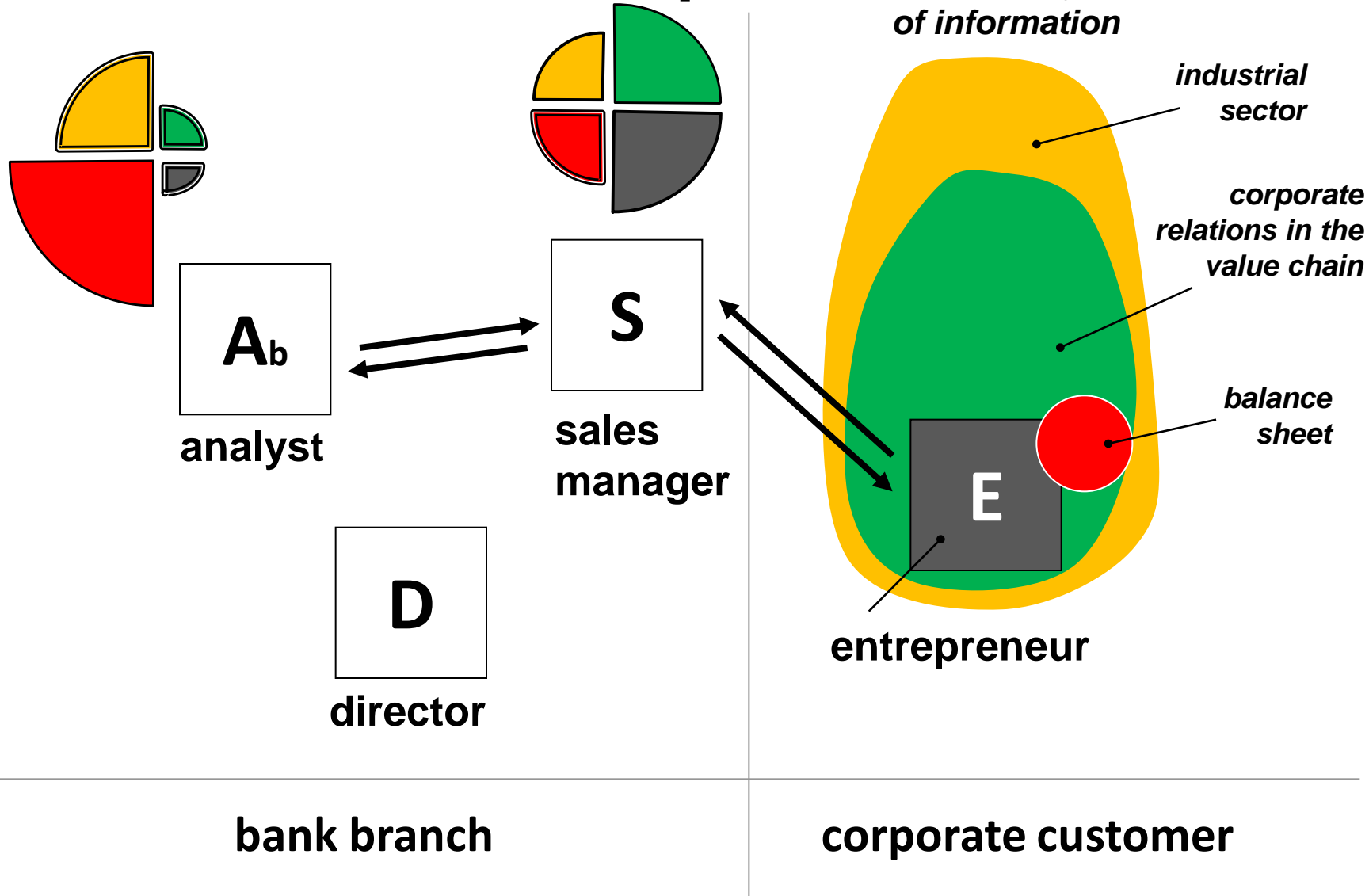
# Tradeoffs between the use of ICT and knowledge transfer in risk management

– the credit approval processes in banks as an  
example

Michael Handke, University of Heidelberg



# Communication Technology in Bank Relationships



# Proximity in Banking

„[...] the role of the *local bank*‘ in easing access to credit: this intermediary, *deep-rooted*‘ in the district, has an **information advantage about people, projects and firms** because of its longterm relation with the community“

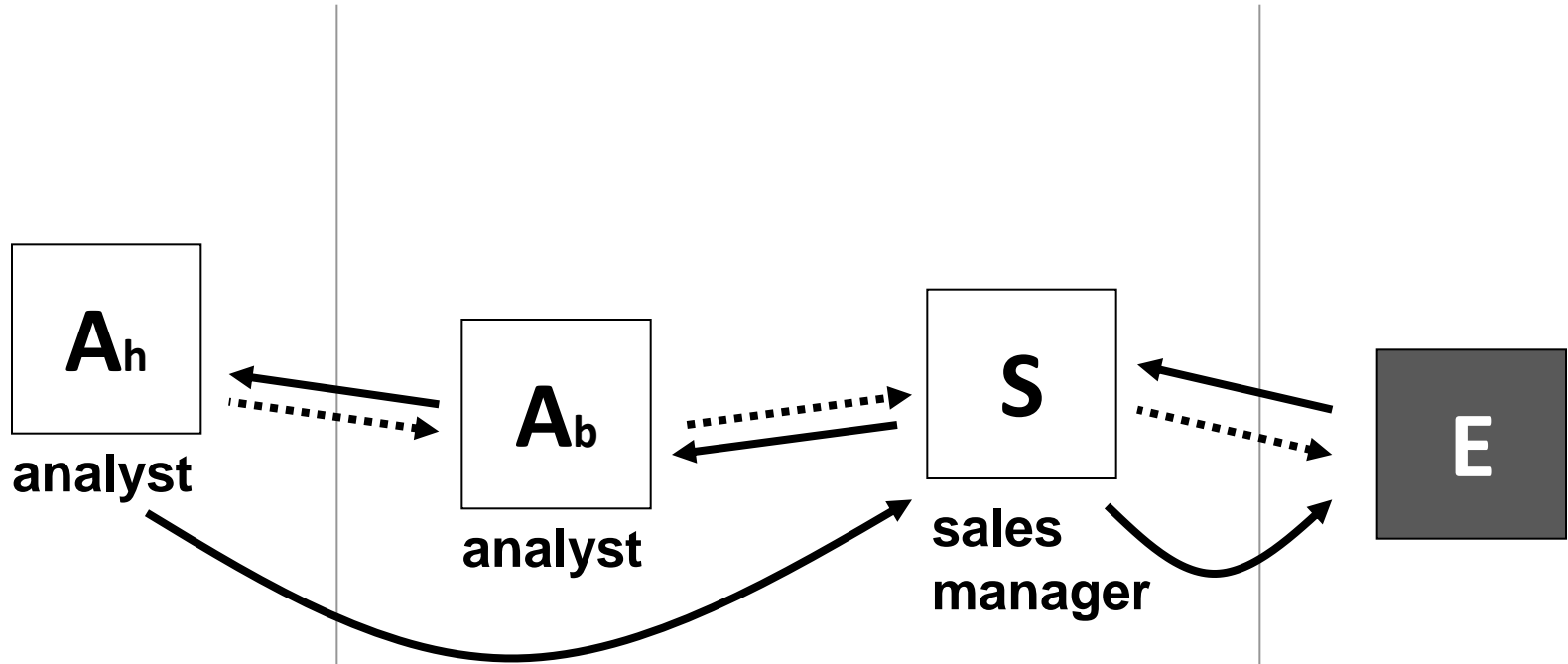
*Russo/Rossi (2001, p. 1470)*

“La financiación relacional puede involucrar garantías que deben ser supervisadas, por lo que la proximidad del banco es esencial”

*Garcia et al. (2005, p. 33)*



# Limited Knowledge Transfer in Banking Relationships



← direction of information flows  
- - - - - minimized feedback

headquarter

bank branch








corporate customer

# Local Banking Market and Competition (2007)




## Ibi

habitants (2007): 23.609




19 branches of banks

- |  |  |               |
|--|--|---------------|
| <b>Corporate banks</b>   |  | BBVA          |
|  |  | Popular (2x)  |
|  |  | Santander     |
|  |  | BancSabadell  |
| <b>Saving banks</b>  |  | Barclays      |
|  |  | Bankinter     |
|  | -----  |               |
|  |  | la Caixa (3x) |
|  |  | Caja Madrid   |
|  |  | Bancaja (2x)  |
|  |  | CAM (4x)      |
|  | Caja Murcia  |               |
|  | Ruralcaja  |               |


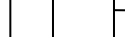

### primary clients

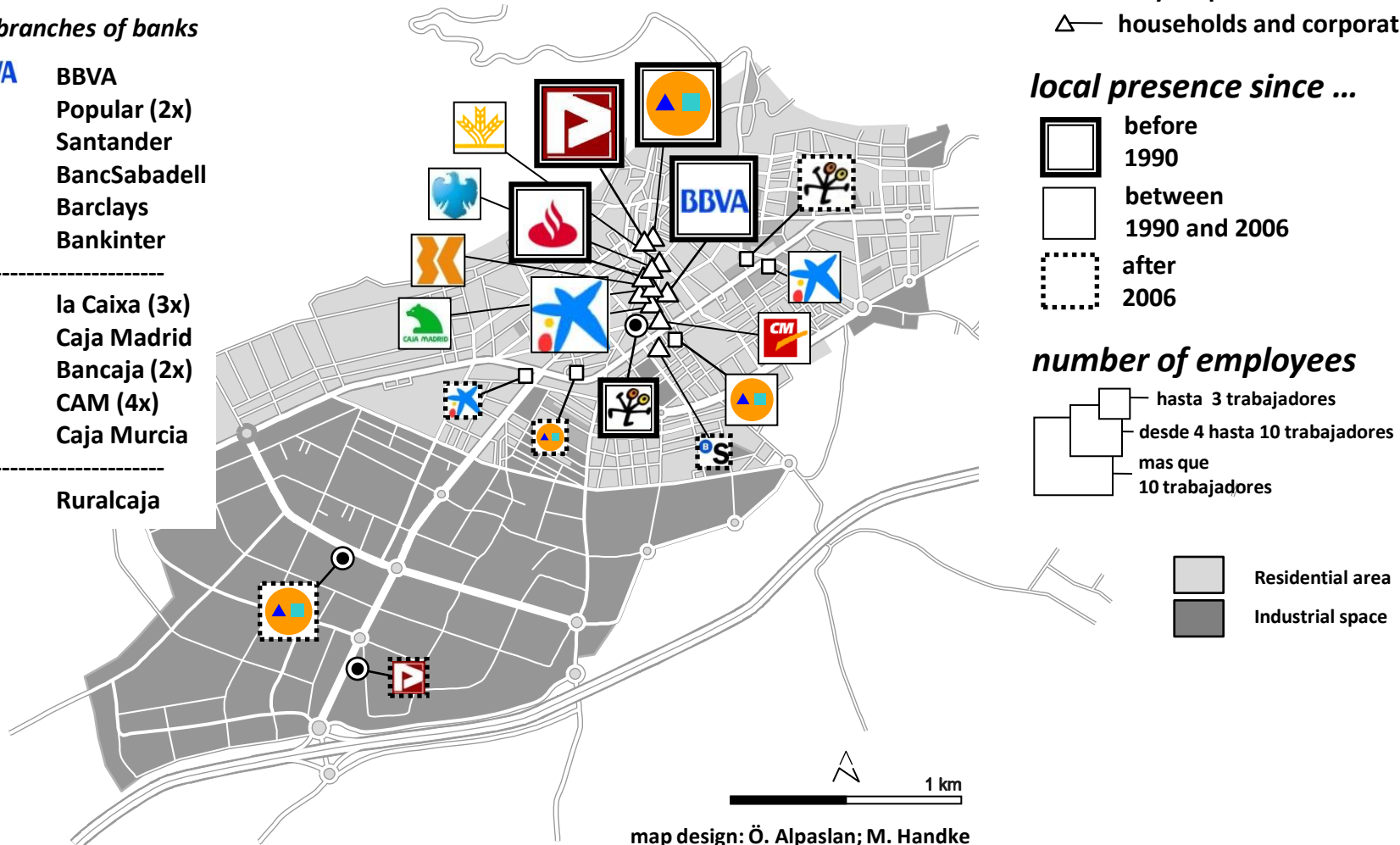
-  only households
-  only corporations
-  households and corporations

### local presence since ...

-  before 1990
-  between 1990 and 2006
-  after 2006

### number of employees

-  hasta 3 trabajadores
-  desde 4 hasta 10 trabajadores
-  mas que 10 trabajadores



map design: Ö. Alpaslan; M. Handke

# Two Different Banking Relationships

Arm's length-relationships	Relationship banking
<i>Borrowers' objectives</i>	
<ul style="list-style-type: none"> <li>- minimization of financial costs; short term oriented</li> <li>- selection flexibility</li> </ul>	<ul style="list-style-type: none"> <li>- minimization of financial costs; long term oriented</li> <li>- contractual flexibility</li> </ul>
<i>Lenders' objectives</i>	
<ul style="list-style-type: none"> <li>- profit maximization with every financial contract</li> </ul>	<ul style="list-style-type: none"> <li>- profit maximization within the relationship</li> </ul>
<i>Role of information</i>	
<ul style="list-style-type: none"> <li>- screening: minor information intensity:</li> <li>- class-based credit approval</li> <li>- primarily quantitative information is used</li> <li>- sales manager without decision competence</li> </ul>	<ul style="list-style-type: none"> <li>- monitoring: major information intensity:</li> <li>- case-based credit approval</li> <li>- qualitative information is crucial</li> <li>- sales manager is given decision competence</li> </ul>
<p>→ switched relationships</p>	<p>→ long lasting relationship</p>

# Intangibles in Project Finance

## Project Finance in the German Automotive Industry:

- Just-in-time-production
- Small profit margins among supplier firms
- Trade credits, late amortization, late cash-flow
- **Outsourcing of development services to the suppliers**
- **Machine tools as costly assets without secondary markets**
- **Interdependencies**

→ Understanding intangibles → finance of intangibles



# Conclusion

- ICT allows an objectification of information
- ICT permits routines in the organization of credit relations and leads to productivity
- ICT legitimates decision making
- ICT represents codified knowledge
- ICT leads to standardized financial products
- F2F permits knowledge development (learning)
- F2F allows the reproduction of tacit knowledge in routines
- F2F facilitates the development and commercialization of individual financial products