

BANK ACQUISITIONS AND LOAN OFFICER AUTHORITY: EVIDENCE FROM FRENCH BANKS

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ABSTRACT

The purpose of this article is to study how the delegation of decision-making rights towards Small and medium-sized enterprises loan officers evolves as a result of bank mergers and acquisitions. Using the framework of organizational architecture theory as our starting point, we examine here one of its three components: the decentralization of decision-making rights. Our survey of Small and medium-sized enterprises loan officers in two recently acquired French banks shows that these officers are often allowed to use their initiative. However, bank consolidation operations do not increase the decentralization of authorization rights. We even observe in such circumstances an increase in hierarchical control. Ultimately, we cannot conclude that in consolidated banks small and medium-sized enterprises loan officers enjoy greater autonomy.

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KEYWORDS: Bank Mergers and Acquisitions, Decentralization of Decision-Making Rights, Theory of Organizational Architecture, *Soft* Information, Bank-SME Relations

INTRODUCTION

he literature highlights different effects on the volume of loans granted (Berger et al., 1998; 1999) and on the nature of relationships between banks and small and medium-sized enterprises (SMEs) arising from the organizational characteristics of banks investigated (Stein, 2002; Cole et al., 2004; Berger et al., 2005a et 2005b; Mian, 2006). Previous work has made it clear that small business lending needs to be relationship lending. This facilitates the collection of soft information that is required for efficient decision making (Berger and Udell, 2002) and reduces the problem of informational opacity which is a feature of this kind of firm. Prior studies have also shown that small banks with flexible structures, are well adapted to collecting soft information and have an advantage in this compared with large, organisationally complex banks (Stein, 2002). There is then a significant link between the organisational characteristics of a bank and the way it finances SMEs (Berger et al., 2005b; De Haas et al., 2010; Beck et al., 2011; Ongena and Sendinez-Yüncü, 2011). Several studies, the majority of which were carried out in the United States (Carter et al., 2004; Cole et al., 2004; Berger et al., 2005b) but also in Europe (Degryse et al., 2011) and in Japan (Ogura & Uchida, 2008), have analyzed the effects of bank reorganization, following a merger or acquisition, on the conditions for granting loans to SMEs. The results of these previous studies vary greatly depending on the type of acquisition, the size of the organizations concerned, the organizational complexity of the consolidated banks, the size of the sample studied and the econometric tool chosen. These studies show negative, positive or insignificant results. However, most of this work offers no convincing explanations and concentrates exclusively on the volume of loans granted by the consolidated banks.

Berger and Udell (2002; 2006) consider that the decision to grant loans to SMEs results from the interaction between several actors at different hierarchical levels. Any change in the organizational structure of the bank is liable to affect the nature of the bank-SME relationship. In this sense, banking acquisitions, by

causing organizational changes, can have a significant impact on the volume of SME lending and condition the nature of the relationship. A study of these consequences must necessarily be based on an analysis of the organizational mechanisms that regulate small business lending decisions. Despite the large amount of research dealing with the primordial role of relationship lending for opaque SMEs as opposed to standard financing, very little of it looks at the bank-SME relationship from an organizational point of view.

Unlike previous research, our work analyses changes in the organizational mechanisms that regulate lending decisions. When banks join together, they undergo important organizational changes. These transform not only bank-borrower relationships, but also the relationships between the different actors in the decision making process. An intra-organizational analysis can help to find an answer to the question of the impact of changes in the bank's organization on small business lending. The lending decision is analyzed in this article as a decisional choice on the part of the acquired bank. In our analysis, we take into account human and organizational aspects. We pay particular attention to agency theory, which attempts to explain decisional choice through the behavior of individuals and their ability to produce and exchange the information necessary to make good decisions.

Our organizational approach highlights the role of the mechanisms that make up the organizational architecture as determining small business lending policy. In this context, the theory of organizational architecture, which explains the decisional choice of organizations, provides a theoretical framework that clarifies our research question (Jensen and Meckling, 1992). Indeed, the organizational mechanisms that regulate lending decisions, in other words the attribution of decision-making rights and control systems (evaluation and incentive mechanisms), are liable to evolve in a situation of bank consolidation. This evolution can have consequences on SME lending processes. The objective of our article is to explain how one of the key components of organizational architecture evolves in the context of bank acquisitions: the distribution of decision-making rights. Our analysis will concentrate in particular on this component of organisational architecture that frames the decision-making process at junior level, especially loan officers. These staff members are in direct contact with SME clients and only they have the soft information necessary for good decision-making. They are also best placed to observe organisational changes that affect SME lending processes. Our survey of loan officers in two French banks soon after these had been taken over shows that the right to use their initiative is often granted at this hierarchical level, but that these operations have no significant effect on the decentralization of authorizing rights. The level of control we observed does not allow us to conclude that the autonomy of SME loan officers increases in acquired banks. The second section of this article presents our theoretical framework and the hypotheses developed for this research. The third section describes our research design, including our empirical methods and the measurement of our variables. We analyze the findings of our field study in the fourth section, before concluding in the final section.

LITERATURE REVIEW

The decision to grant a loan to an SME is ruled by a complex organizational process. To analyze the consequences of bank acquisitions on this process it is necessary to examine how the organizational mechanisms that regulate this decision evolve. Our approach is to highlight the roles of the different components of the decision-making process, within the overall framework of agency theory.

Theory of Organizational Architecture

An analysis of the decision-making process cannot be dissociated from the organizational framework. The theory of organizational architecture, by underlining the crucial role of specific knowledge within an organization, makes it possible to analyze decision making on the basis of the capacity individuals have to produce and exchange the necessary information (Jensen and Meckling, 1992). Noda and Bower (1996) describe this process within the organization in which different hierarchical levels can come into conflict

and where control of the decision depends on the effectiveness of the organizational architecture. This architecture includes the sharing of decision-making rights within the organization, together with a system of incentives and control. Organizational efficiency depends therefore on the coherence and complementarity of these features. As one of the keys to organizational performance lies in the capacity of a firm to collocate decision-making rights and specific knowledge, this co-location raises the issue of the centralization or decentralization of decision-making rights. Whilst for Jensen and Meckling (1992) and for Christie et *al.* (2003), this choice is a result of an arbitrage between the costs and benefits that each of these options would imply, Berger and Udell (2002) suggest that the organization should be adapted to the funding of opaque firms. Banks should thus adopt a decentralized organizational structure that gives maximum autonomy to those in possession of specific knowledge (Stein, 2002).

Hypotheses

In the theory of organizational architecture, organizational efficiency is generated by co-locating decisionmaking rights and specific knowledge, as long as the advantages of such an organization exceed the total costs of control and of information transfer. Nagar (2002), Christie et al., (2003) and Demers et al., (2004), demonstrate nonetheless that increasing the degree of specific information held by lower hierarchical levels increased the cost of information transfer and thus affects the choice to delegate decision-making rights. Shen et al. (2009) find that in their sample of Chinese banks there is a positive link between the use of soft information, the amount of SME lending and the decentralization of decision-making rights in favor of loan officers. The research carried out by Benvenuti et al. (2010) on a sample of Italian banks also confirms a positive link between an increase in loan officers' authority and SME lending. Overall, decentralization results in increased motivation and effort on the part of loan officers and this leads to greater use of soft information. Bank acquisitions engender changes in size, organizational complexity and diversification strategy, and these changes can in turn lead to an increase in the cost of transferring the specific information held by SME loan officers. Since organizational efficiency in the newly-consolidated bank requires a reduction in the cost of transferring specific knowledge, the acquisition must be accompanied by the colocation of decision-making rights and of specific knowledge (Berger and Udell, 2002). This leads us to propose a first hypothesis

Hypothesis 1: The nature of the information held by SME loan officers has a positive effect on the decentralization of decision-making rights.

The reasons behind bank mergers and acquisitions should have some effects on the allocation of decisionmaking rights. The reasons studied here are of three types: to counteract an uncertain business environment, to obtain critical mass, and to develop new activities and locations. According to Jensen and Meckling (1992), the allocation of decision-making rights varies along with changes in the firm's internal and external environment. Such changes result in the decentralization of decision-making rights towards hierarchical levels that hold specific information (Noda and Bower, 1996; Brickley et al., 1997). Nagar's research (2002) on American retail banks shows that environmental instability has a positive effect on the decentralization of decision-making rights towards branch managers. Demers et al. (2004) obtain the same result in the e-commerce sector. Canales and Nanda (2012), using a sample of Mexican SME loans, found that branch managers in decentralized banks are more sensitive to the local environment than branch managers in centralized banks. They give more attractive terms to firms in competitive banking markets, but are more likely to cherry-pick firms and restrict credit in areas where they have market power. Thus, the extent to which decentralized banks alleviate credit constraints depends critically on the competitive environment for banks. Finally, according to Berger and Udell (2002), the granting of loans to SMEs is strongly influenced by the bank's external environment. These contributions lead us to propose a second hypothesis:

Hypothesis 2: The degree of uncertainty in the consolidated bank's external environment has a positive effect on the decentralization of decision-making rights.

The number of products or services offered by a firm and the geographical size of its market define its diversification strategy. According to Brickley et *al.* (1997), the firm's geographical diversification and differentiation strategy have a positive effect on the decentralization of decision-making results. Christie et *al.* (2003) demonstrate that the diversification strategy of large firms has a positive effect on the decentralization of decision-making results. Christie et *al.* (2003) demonstrate that the diversification strategy of large firms has a positive effect on the decentralization of decision-making rights towards Middle management levels. Nagar (2002) finds the same result for the banking sector. The diversification strategy is also one of the reasons behind bank mergers and acquisitions. Indeed, according to Akhavein et *al.* (1997), the majority of the growth in profitability of consolidated banks does not derive from market power or from attaining critical mass but rather from diversifying the portfolio of activities. However, in consolidated banks, specific information concerning SMEs is in the possession of the intermediate, operational levels, which implies that decision-making rights have to be delegated to these levels. We therefore hypothesize as follows:

Hypothesis 3: the level of diversification of the consolidated bank's portfolio of activities has a positive effect on the decentralization of decision-making rights.

Geographical diversification makes it possible to respond better to the regulatory requirements in terms of risk. However, it increases the distance separating senior management from lower levels of staff. As it is less costly to control loan officers in large urban areas than in rural areas, and easier to post the former to different hierarchical levels, there is a greater degree of decentralization of decision-making rights towards loan officers in rural or small urban areas (Brickley et *al.*, 1997). It is moreover more costly to transfer knowledge towards higher hierarchical levels, which implies that loan officers in rural areas will specialize less in particular tasks, and which will consequently result in greater decentralization of decision-making rights. All of this leads us to propose two hypotheses

Hypothesis 4: (a) The geographic distance that separates loan officers from their hierarchical decision centers and (b) their geographical location have positive effects on the decentralization of decision-making rights.

According to Jensen and Meckling (1992), the cost of knowledge transfer increases with the size of the firm. Agency costs are higher in a large firm where specific knowledge is widely spread. Brickley et *al.* (1997) add that the level of decentralization increases with the size of the organization. According to Milgrom and Roberts (1992), the principal problem that accompanies the growth of an organization's size is the weakening of its decision-making process and in particular the coordination between agents. The growth of an organization is often accompanied by a growth in the number and/or size of its operational units that affects the quantity of information transferred from these operational units to higher levels. Demers et *al.* (2004) also show that the size of a division affects the degree of delegation. With a growth in managerial responsibilities, senior managers thus tend to delegate more.

Given this context, Berger et *al.* (1999) highlight the fact that diseconomies of scale resulting from a bank's involvement in two different credit activities prevents large establishments from managing relational and standard financing efficiently in parallel. According to Stein (2002), decentralized organizations are better able to deal with *soft* information, whereas centralized organizations have more capacity to deal with *hard* information. Liberti (2003) analyzes the effect of a change in hierarchical structure on the motivation of loan officers in a large international bank in Argentina and compares the decentralization of decision-making rights with more traditional, centralized control. He finds that hierarchical change gives more autonomy to subordinates who use *soft* information more efficiently. According to Liberti and Mian (2009), bank organizational complexity, measured by the hierarchical distance, is an obstacle to the processing of soft information. Cotugno et *al.* (2013) examine firms' credit availability during the recent financial crisis

using a dataset of 5331 bank-firm relationships provided by the borrowers' credit folders of three Italian banks. The results of this study confirm that an increase in hierarchical distance, which is used as a proxy to measure the organizational complexity of banks, negatively influences credit availability more than an increase in organizational distance. Indeed, a financial crisis can impact the loan assessment behavior of loan officers (Nilsson and Öhman, 2012). Takats (2004) also shows that the problem of internal information asymmetry can be solved if the bank adopts a decentralized organization and reinforces control. On the other hand, a centralized structure proves to be more profitable but disadvantageous for financing opaque SMEs. Efficient, profitable SME credit activities depend then on the degree to which authority is delegated to SME loan officers. These different contributions lead us to propose the following two hypotheses:

Hypothesis 5a: The size and organizational complexity of consolidated banks have a positive effect on the decentralization of decision-making rights.

Hypothesis 5b: The growth in size and organizational complexity of acquired banks has a positive effect on the decentralization of decision-making rights.

According to Stein (2002), Degryse and Ongena (2007), the link between a bank's organizational form and the nature of bank-firm relations can be applied to operational units within a single bank. The organizational complexity of the operational units of a bank, as well as their evolution after acquisition, can have implications on the degree of motivation loan officers have to collect process and transfer *soft* information. To maintain a policy of offering credit to SMEs, a consolidated bank must therefore delegate more decision-making rights to SME loan officers in operational units. In view of these contributions, we propose four hypotheses:

Hypothesis 6a: The degree of organizational complexity of operational units has a positive effect on the decentralization of decision-making rights.

Hypothesis 6b: The growth of size and organizational complexity of operational units after a merger has a positive effect on the decentralization of decision-making rights.

Hypothesis 7a: The size of operational units has a positive effect on the decentralization of decision-making rights.

Hypothesis 7b: The growth of size of operational units after a merger has a positive effect on the decentralization of decision-making rights.

Decentralization can lead to agency problems. Jensen and Meckling (1992) recommend the implementation of a system of control, including incentives and appraisal mechanisms. According to Brickley et *al.* (1997), efficient organizational architecture is the result of the firm's ability on one hand to implement a system to transfer knowledge from operational to higher levels and, on the other hand, mechanisms encouraging agents to pass on the information that is required for efficient decision-making. As organizational efficiency looks to minimize knowledge transfer and delegation costs, in particular control costs, the features of the performance measures, together with their degree of precision, determine the cost of decentralization (Moers, 2006). The characteristics of performance measures and in particular their degree of precision, affect the choice of the incentive measures that represent delegation costs. We pose the following hypothesis:

Hypothesis 8: The degree of precision of loan officer appraisal systems in consolidated banks has a positive effect on the decentralization of decision-making rights.

According to agency theory, incentives systems for lower hierarchical levels represent a delegation cost for a firm. This cost is linked to the implementation of incentive measures refereed by the higher hierarchical level responsible for delegation. The accounting literature describes the importance of the link between remuneration and delegation (Melmud and Reichelsetin, 1987; Melmud et *al.*, 1992; Milgrom et Roberts 1992; Baiman et Rajan, 1995; Bushman et *al.* 2000). In line with Nagar's work (2002) and that of Demers et *al.* (2004), high levels of incentive bonuses result in lower levels of delegation. These elements enable us to formulate the following hypothesis:

Hypothesis 9: The use of a system of incentive payments for loan officers in consolidated banks has a negative effect on the decentralization of decision-making rights.

DATA AND METHODOLOGY

Sample

Our quantitative study concerns a sample of loan officers working in two recently acquired French banks that grant loans to SMEs. The names of the banks studied cannot be disclosed. We then used aliases. The takeovers of the Bank Alpha by Bank Bravo and of Bank Charlie by Bank Delta fulfill these conditions. This choice enables us to avoid the bias resulting from differences at the level of economic, regulatory and technological circumstances. It also gives us easier access to the data and avoids any risk of cultural bias that can appear in transnational operations. We only analyze the consequences of these acquisitions for the target banks. Since the two operations we studied were of different scales, we are able to compare their consequences empirically by taking into account the effect of the size and organizational complexity of the banks under study. Our analysis of how the decentralization of decision-making rights evolves is in line with the procedure used in previous studies (Catelin, 2001; Nagar, 2002; Demers et al., 2004; Moers, 2006). The aim of this is not to test our theoretical model on several acquired banks but on several individuals who have the same position in acquired banks. According to Chenhall (2003) and Demers et al. (2004), an analysis of a single post or activity is enough to apprehend the complementarity of the components of the organization's architecture. According to Ittner and Larker (2001), an analysis of the components of the organizational architecture in a single sector of activity presents several advantages. Respondents are likely to interpret the survey questions similarly, thus increasing the validity of comparing the replies. These firms also face the same external environment, which reduces a number of possible biases. We administered our questionnaire internally or by email to all of the loan officers representing the different units between October 2006 and February 2007. Out of 200 questionnaires (140 at Bank Alpha and 60 at Bank Charlie), 61 were usable (33 from the Bank Alpha and 28 from the Bank Charlie).

Variable Computation and Description

The measures used for our variables come from research analyzing the components of organizational architecture and that dealing with the consequences of mergers and acquisitions on SME-bank relationships, but they also include indicators encountered at the pretesting stage. The majority of the variables in our model are represented by at least one question and measured on a 5-point Likert scale. In order to structure the information obtained on these different scales, we carried out a series of principal component analyses (PCA). The factors emerging from the PCA represent the measures of our variables. Each of the five dimensions of the dependent variable, the decentralization of decision-making rights, is examined by a different question and measured on a 5-point Likert scale. In all, this dependent variable is measured by nine factors extracted from the PCA (see Table 1).

Variables	Factor Type	Extracted Factors	Variable Name	% σ	a
				/00	0.0070
to the loan officer	extracted from PCA	In terms of the sum or the number of loans	NBR_AUIO	47.881	0.8272
		In terms of fees charged	FIN_AUTO	16.302	0.5616
Vertical decentralization of right to use initiative granted to the loan officer	Metric : 1 factor extracted from PCA	Vertical decentralization of right to use initiative granted to the loan officer	INITIATI	57.160	0.8072
Vertical decentralization of approval rights Metric : 2 factor extracted from		In terms of characteristics of the loan	APPR_CARACT	60.807	0.8634
		In terms of cost of the loan	APPRRAT_COST	18.421	0.8079
Vertical decentralization of	Metric : 2 factors	In terms of leadership and advice	SUP_ANIM	51.040	0.8022
control rights to the immediate superiors of loan officers	extracted from PCA	In terms of control	SUP_CONT	33.568	-
Horizontal decentralization of control rights	Metric : 2 factors extracted from PCA	Extent of team work: cooperation and communication	TEAM_COM	61.830	0.9092
		Extent of team work: frequency of meetings	TEAM_MEET	18.343	0.7160

Table 1: Dependent Variable Definitions

This table shows the various dependent variables. The σ measures the percentage of variance dependent while α is Cronbach's alpha, which reflects the level of internal validity of factors. For this factor we used the criteria of Nunnally (1967), which emphasizes that α is acceptable when it is greater than 0.6 for a confirmatory study and more favorable when it is greater than 0.8 for exploratory study.

The items used to measure the right to use initiative and the vertical decentralization of control rights are inspired by Catelin's (2001) study. Those related to horizontal decentralization are measured by the frequency of meetings and the nature of cooperation and communication between the members of a single team. These items make it possible to measure the level of mutual control within a single operational unit (Demers et *al.*, 2004). Finally, the items used to capture authorization rights and the degree of autonomy enjoyed by loan officers were developed from Zardkoohi and Kolari's (2001) study and from various suggestions made by loan officers during the pretest. The independent variables used in our model are divided into two groups. The first consists of variables measured on a 5-point Likert scale. As for the questions measuring our independent variable, we carried out a series of principal component analyses (PCA) in order to structure this information. The factors emerging from these PCA represent the measures of this first group of dependent variables (see table 2).

Variables	Factor Type	Extracted Factors	Variable Name	%σ	α
The nature of the	Metric : 2 factors extracted from PCA	Specific information (soft)	CRITVA1	64.353	0.9592
information held by SME loan officer		Standard information (hard)	CRITVA2	8.159	0.6811
Loan officers' assessment system	Metric : 2 factors extracted from PCA	Multidimensional performance measures	MESPERF1	63.554	0.9456
-		Financial performance measures	MESPERF2	12.130	0.8298
Incentives system	Metric : 2 factors extracted from PCA	Plans and other awards and bonuses	INCITSY1	57.699	0.9146
		Incentive schemes and profit-sharing agreements	INCITSY2	19.358	0.8022
Environmental instability	Metric : 1 factors extracted from PCA	Environmental instability	ENTINSTA	50.856	0.6708
The activity diversification strategy	Metric : 2 factors extracted from PCA	The number of services and tasks managed	DIV_SER	51.179	0.7480
		The number of clients managed	DIV CLT	23.082	0.7407

Table 2: Independent Variable Definitions and PCA Results

This table shows the first group of independent variables. Each variable is measured by factors extracted from PCA made from items used in the different questions of our survey. The σ measures the percentage of variance dependent while α is Cronbach's alpha, which reflects the level of internal validity of factors. For this factor we used the criteria of Nunnally (1967), which emphasizes that α is acceptable when it is greater than 0.6 for a confirmatory study and more favorable when it is greater than 0.8 for exploratory study.

In their relations with SMEs, banks use two types of information: soft and hard information (Petersen, 2004). The items used to capture these two types of information were inspired by the work of Zradkoohi and Kolari (2001), Liberti (2003) and Scott (2006) and completed at the time of the survey. The PCAs we carried out give us two extracted factors: specific assessment criteria and standard assessment criteria. On the basis of various former studies (Catelin, 2001; Hoque, 2004 and 2005; Moers, 2006), we captured the degree of environmental uncertainty using four items: instability of the competitive environment (supply), changes in demand, the technological environment and the regulatory and legislative environment. Concerning the activity diversification strategy, the PCAs we carried out gave us two distinct factors. The first of these measures the number of services and tasks managed, whilst the second measures the number of clients managed. The geographical diversification strategy is measured by the number of new units set up. The items used to measure incentives schemes use the work carried out by Catelin (2001) and Chatelin (2001) and are divided into two categories, financial and non-financial incentives mechanisms. The PCAs we carried out on these items enabled us to extract two factors (Table 3). SME loan officer assessment systems include three categories of measures: formal (financial criteria), informal (non-financial measures) and mixed (multidimensional) measures. Each category can be linked to an individual, collective or divisional appraisal system. The PCAs we carried out on these items gave us three extracted factors, multidimensional mechanisms and appraisal mechanisms consisting entirely of financial measures. The second group of independent variables in our model do not refer to items. Some of these variables are latent and are measured by 5-point Likert scales (change of size and organizational complexity of the branch, change of size of the acquired bank, distance between the loan officer and his/her hierarchical decision center). Others are dichotomous variables, such as the size and organizational complexity of the acquired bank or the geographic location of the branch. Finally, some of the variables are quantitative, such as the size and organizational complexity of the branch. Table 3 summarizes the definitions of these independent variables.

Variables	Factor Type	Extracted Factors	Variable Name
Changing the size of the branch	Nonmetric : A five- point Likert scale	The number of people employed : 1= significantly reduced; 2= reduced; 3 = unchanged; 4 = increased;5 = significantly increased	CHSIZE
Changing the organizational complexity of the branch	Nonmetric : A five-point Likert scale	The number of hierarchical levels: 1= significantly reduced; 2= reduced; 3 = unchanged; 4 = increased; 5 = significantly increased	CHCOMPLE
Geographical location of the branch	Nonmetric : dichotomous variable	0 = located in a rural area 1 = located in a urban area	GEOIMPL
Geographical distance between the loan officers and immediate superiors	Nonmetric : categorical dependent variable	= 0 in the same branch; 1 = less than 10 min; 2 = less than 30 minutes; 3 = less than 60 min; 4 = less than 120 min; 5 = more than 120 min	DISTANCE
Changing the size of the acquired bank	Nonmetric : A five-point Likert scale	The number of new branches has increased : 1 = hardly or not at all; 2 = slightly; 3 = averagely; 4 = highly; 5= very highly	DIVGEOGR
Branch's organizational complexity	Metric : quantitative variable	The organizational complexity of operational units (measured by the number of hierarchical levels	COMPLEXI
The size of the operational unit in consolidated banks	Metric : quantitative variable	The size of the operational unit (measured by the number of employees)	BRCHSIZE
Acquired bank's size and organizational complexity	Nonmetric : dichotomous variable	0 = Bank Charlie : Small size ; 1 = Bank Alpha : large size	BANK

Table 3:	Independent	Variable	Definitions
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This table shows the second group of independent variables.

Model Specifications

Because of the structure of the questionnaire and the nature of the dependent variables we carried out a variance analysis, and more precisely one of its principal extensions, the MANCOVA (*multiple analyses of covariance*). In cases where there are several qualitative dependent variables, two variance analysis models are possible, depending on whether the dependent variables are independent (*additive model*) or linked (*model with interaction*). We opted for an additive model in order to avoid the problems caused by

interactions between qualitative variables. Indeed, our equation includes six qualitative variables, which increases the number of dependent variables (principal effects plus interaction effects) and raises the problem of degree of liberty. Furthermore, the model we are testing contains several quantitative dependent variables. In this case we apply the multivariate analysis of variance model (MANOVA). In this analysis, the dependent variables are quantitative. They must fulfill statistical conditions that are generalizations of the univriate case. Moreover, our econometric model contains both qualitative and quantitative dependent variables. Here we adopt multivariate analyses of covariance (MANCOVA) which are a generalization of the multivariate analysis of variance. The purpose of this is to study the relationships between several quantitative dependent variables and a series of dependent variables made up of qualitative and quantitative variables. The following model of the multivariate analysis of covariance (MANCOVA) was estimated:

 $\begin{aligned} Decentralization_{i} &= \beta_{0} + \beta_{1}CHTAILLE_{i} + \beta_{2}CHCOMPLE_{i} + \beta_{3}IMPLGEO_{i} + \beta_{4}DISTANCE_{i} + \\ \beta_{5}DIVGEOGR_{i} + \beta_{6}BANQUE_{i} + \beta_{7}CRITVA1_{i} + \beta_{8}CRITVA2_{i} + \beta_{9}MESPERF1i + \beta_{10}MESPERF2_{i} + \\ \beta_{11}SYINCIT1_{i} + \beta_{12}SYINCIT2_{i} + \beta_{13}TAILLE_{i} + \beta_{14}COMPLEXI_{i} + \beta_{15}INCERTI_{i} + \beta_{16}DIV_SER_{i} + \\ \beta_{17}DIV \ CLTi + \varepsilon_{i} \end{aligned}$

The dependent variable "decentralization" is measured by nine factors extracted from the PCA (see Table 1). Therefore, we tested this equation for the nine factors that measure our independent variable.

RESULTS AND DISCUSSION

We interpret here the results of the MANCOVA analysis for each of the dependent variables, except for the degree of autonomy granted to the loan officer. The acquisitions studied do not have a significant effect on the degree of autonomy enjoyed by SME loan officers, either in terms of the sum or the number of loans or the fees charged. Tables 4 and 5 summarize the results of the multivariate analysis of variance.

Our results do not support hypothesis H7a: the size of the operational unit in consolidated banks has a negative effect on the decentralization of decision-making rights. In other words, the larger the size of the branch, the more the right to take initiative is centralized. However, when a change of size in operational unit, takes the form of a significant reduction in the number of people affected, this does have a positive effect on the decentralization of initiative rights. We observe that the lower the number of staff working in a branch, the greater the decentralization of initiative rights. The organizational complexity of operational units, measured by the number of hierarchical levels, has a negative effect on the decentralization of initiative rights towards SME loans officers. An increase – even slight – in organizational complexity has a negative effect on the decentralization of initiative rights towards SME loans officers. An increase – even slight – in organizational complexity has a negative effect on the decentralization of initiative rights.

We also observe that the greater the number of hierarchical levels in a branch, the more the nature of loans managed and the type of clientele targeted by SME loan officers are decided in teams or at higher hierarchical levels. The non-validation of hypotheses H6 and H7 shows that agency costs and transfer costs for specific information in operational units do not justify the centralization that is supposed to minimize these costs. The reasoning of Degryse and Ongena (2007) and Stein's (2002) model do not appear to be confirmed here for operational units. The geographical distance between a loan officer and his/her hierarchical superior has a positive effect on the delegation of initiative rights. This finding is particularly significant for distance of less than 10 minutes and for loan officers working at the same location as their superior. This result refutes our hypothesis H4a by which the greater the geographical distance between two hierarchical levels the greater the vertical delegation of initiative rights.

	Dependent Variables	Vertical Decentralization of Right to Use Initiative Granted to the Loan Officer		Vertical Decentralization of Approval Rights "In Terms of Cost of the Loan"	
Independent Variables					
		Coef	t-std	Coef	t-std
Constant		-2.029	(-1.917)*	0.252	(0.133)
Changing the size of the branch	CHSIZE=1	1.586	(2.676)**	0.572	0.541)
	CHSIZE=2	0.499	(1.007)	-1.603	(-1.814)*
	CHSIZE=3	-0.00855	(-0.019)	0.358	(0.438)
Changing the organizational complexity of the branch	CHCOMPLE=1	-0.26	(-0.592)	-0.467	(-0.598)
	CHCOMPLE=2	-0.944	(-1.999)*	0.00756	(0.009)
Geographical location of the branch	IMPLGÉO=0	0.457	(0.777)	0.19	(0.181)
Geographical distance between the loan officers and	DISTANCE=0	1.204	(2.659)**	-0.807	(-1.000)
immediate superiors	DISTANCE=1	1.699	(3.461)***	-0.187	(-0.213)
	DISTANCE=2	-0.258	(-0.496)	-0.3	(-0.324)
	DISTANCE=3	-0.992	(-1.456)	0.0999	(0.082)
	DISTANCE=4	0.673	(1.711)	-0.51	(-0.727)
Changing the size of the acquired bank	DIVGEOGR=1	2.632	(2.889)**	-0.62	(-0.382)
	DIVGEOGR=2	2.872	(3.484)***	-0.746	(-0.507)
	DIVGEOGR=3	3.371	(4.067)***	-0.175	(-0.118)
	DIVGEOGR=4	3.255	(3.538)***	-1.224	(-0.746)
Acquired bank's size and organizational complexity	BANK=0	-0.0947	(-0.276)	0.0541	(0.088)
The nature of the information held by SME loan office	er CRITEVA1	-0.0284	(-0.134)	0.165	(0.436)
	CRITEVA2	0.107	(0.737)	0.039	(0.150)
Loan officers' assessment system	MESPERF1	0.350	(1.976)*	0.0814	(0.256
	MESPERF2	0.0115	(0.062)	0.345	(1.045)
Incentives systems for loan officers	INCITSY1	-0.103	(-0.608)	-0.106	(-0.349)
	INCITSY2	0.0743	(0.526)	(0.208)	0.0525
Bank's size	SIZE	-0.3209	(-2.575)**	0.0304	(1.368)
Branch's organizational complexity	ENTINSTA	-0.352	(-2.261)**	0.125	(0.451)
Environmental instability	INCERTI	0.106	(0.456)	-0.358	(-0.864)
The activity diversification strategy	DIV_SER	0.0296	(0.161)	0.144	(0.439)
	DIV_CLT	-0.235	(-1.614)	0.0706	(0.272)
R ²	_		0.890		0.629

Table 4: Results of the Multivariate Analysis of Variance (1/2)

This table shows the results of our MANCOVA for both dependent variables "Vertical decentralization of right to use initiative granted to the loan officer" and "Vertical decentralization of approval rights in terms of cost of the loan". (*) p < 10 %; (**) p < 5 %; (***) p < 1 %.

To sum up, the vertical decentralization of initiative rights only takes effect in small-sized, organizationally uncomplex operational units where the geographical distance separating the loan officer from his direct superiors is low or non-existent. The growth in size of consolidated banks, measured by the number of new geographical locations, has a significant positive effect on the vertical decentralization of initiative rights to loan officers. This result confirms our hypothesis H5a. Thus, the greater the size of the bank, the greater is the vertical delegation of initiative rights. In this case, the decentralization of initiative rights results in a reduction of the specific information transfer costs and the agency costs that an increase in the number of hierarchical levels can lead to. Our findings also show that when multidimensional performance measures are used in the loan officers' assessment system, this has a positive effect on the vertical decentralization of initiative rights. This confirms our hypothesis H8, according to which the precision of officer assessment measures has a positive effect on the decentralization of decision-making rights and particularly on initiative rights (Moers, 2006). This hypothesis is not confirmed for financial performance measures, which is in theory more precise than multidimensional measures. Indeed, analysis of the frequency and number of interviews, carried out during the questionnaire pretest, shows that financial performance measures are

rarely used. The decentralization of approval rights is captured by two factors extracted from the ACP: approval in terms of characteristics and in terms of the cost of the loan. The MANCOVA shows that the dependent variables in our model have no significant effect on approval of the characteristics of the loan.

Independent Variables	Dependent Variables Vertical Decentralization of Control Rights to the Immediate Superiors of Loan Officers : "Control" Commun			centralization of Extent of Team Cooperation and ommunication"	
		Coef	t-std	Coef	t-std
Constant		0.805	(0.653)	-0.126	(-0.077)
Changing the size of the branch	CHSIZE=1	-0.281	(-0.407)	-1.938	(-2.107)*
	CHSIZE=2	-0.129	(-0.223)	-0.163	(-0.212)
	CHSIZE=3	-0.806	(-1.509)	0.305	(0.428)
Changing the organizational complexity of	CHCOMPLE=1	-0.61	(-1.195)	0.296	(0.436)
the branch	CHCOMPLE=2	-0.899	(-1.634)	0.0638	(0.087)
Geographical location of the branch	IMPLGÉO=0	0.732	(1.068)	-0.0502	(-0.055)
Geographical distance between the loan	DISTANCE=0	-1.071	(-2.031)*	0.0233	(0.033)
officers and immediate superiors	DISTANCE=1	-0.526	(-0.920)	1.048	(1.375)
	DISTANCE=2	-1.243	(-2.054)*	0.195	(0.241)
	DISTANCE=3	0.309	(0.390)	0.0848	(0.080)
	DISTANCE=4	-0.0896	(-0.195)	0.275	(0.450)
Changing the size of the acquired bank	DIVGEOGR=1	-0.6	(-0.565)	1.114	(0.788)
	DIVGEOGR=2	-1.085	(-1.130)	0.706	(0.522)
	DIVGEOGR=3	-0.763	(-0.790)	-0.236	(-0.184)
	DIVGEOGR=4	-1.717	(-1.602)	2.095	(1.467)
Acquired bank's size and organizational complexity	BANK=0	0.255	(0.637)	-0.319	(-0.599)
The nature of the information held by SME	CRITEVA1	-0.285	(-1.153)	0.223	(0.675)
loan officer	CRITEVA2	0.142	(0.839)	0.0525	(0.232)
Loan officers' assessment system	MESPERF1	0.333	(1.613)	0.177	(0.645)
	MESPERF2	0.0441	(0.205)	-0.155	(-0.541)
Incentives systems for loan officers	INCITSY1	-0.157	(-0.794)	0.557	(2.118)*
	INCITSY2	0.00802	(0.049)	-0.164	(-0.749)
Bank's size	SIZE	0.011	(0.756)	-0.0176	(-0.911)
Branch's organizational complexity	ENTINSTA	0.694	(3.825)***	-0.202	(-0.837)
Environmental instability	INCERTI	0.051	(0.188)	0.164	(0.456)
The activity diversification strategy	DIV_SER	0.172	(0.801)	0.555	(1.945)*
	DIV_CLT	0.267	(1.575)	-0.121	(-0.536)
R ²			0.857		0.775

Table 5: Results of the Multivariate Analysis of Variance (2/2)

This table shows the results of our MANCOVA for both dependent variables "Vertical decentralization of control rights to the immediate superiors of loan officers" and "Horizontal decentralization of control rights: "Extent of team work: cooperation and communication. (*) p < 10 %; (**) p < 5 %; (***) p < 1 %.

However, beyond a threshold of ten, a reduction in the size of operational units has a negative effect on the decentralization of the right to approve the cost of the loan. In other words, a reduction in the size of the branch, measured by a reduction in staff levels, has a negative effect on the decentralization towards SME loan officers of the right to approve the cost of the loan. This result confirms our hypothesis H7a, which assumes that the size of operational units has a positive impact on the decentralization of decision-making rights. The decentralization of control rights towards middle management is measured here by two factors: changes in the role of the immediate superiors of loan officers, in terms of leadership and advice, and in terms of control. For the first factor, the multivariate analysis of covariance gives no significant result, whereas the second factor shows a relatively high R^2 coefficient (0,857). We also observe a positive and significant effect of the size of operational units of acquired banks on the decentralization of control rights

towards middle management. Hence, the larger the size of the branch, the higher is the degree of control exercised by the loan officer's immediate superior (hypothesis H7a). Nonetheless, the confirmation of our hypothesis H4a reveals that the smaller the distance separating loan officers from their hierarchical superior, the lower is the degree of control exercised by this hierarchical superior.

Two factors are extracted from the ACP to measure the horizontal decentralization of control rights variable, reflecting the degree to which specific information is shared between different officers and the degree to which they supervise each other. The multivariate analysis demonstrates that a reduction of staff numbers in the operational units of acquired banks affects cooperation and communication between the members of a team, and thus reduces the degree to which specific information is shared and transferred. Our findings show, however, that financial incentive schemes, in the form of bonuses, have a positive effect on the horizontal decentralization of control rights. Measured by the "extent of team work: communication and cooperation," this consequently disproves our hypothesis H9. This same positive effect can be observed when activities become more diverse, measured by the number of services managed by loan officers. This diversification increased the level of mutual supervision through an increase in communication and cooperation between the members of a single unit and increase in the range of products sold, measured by the number of new services managed by loan officers, and has a positive effect on the decentralization of decision-making rights.

CONCLUSION

The purpose of this article is to study how the delegation of decision-making rights towards Small and medium-sized enterprises loan officers evolves as a result of bank acquisitions. We collected data through a questionnaire administrated to all small business loan officers of two French acquired banks. To test our hypotheses, we carried out a *multiple analyses of covariance*. Our analysis produced several original results. The size of an acquired bank, or its growth post-acquisition, has a positive influence on the decentralization of initiative rights to loan officers. Nonetheless, growth in the size and organizational complexity of merged operational units results in a reduction in initiative rights at this level. Whilst we observe a vertical decentralization of initiative rights towards operational units, the number, volume and cost of loans granted, as well and the type of SME clientele targeted are fixed by the team or dictated by superiors.

The use of a system of multidimensional measures of performance in acquired banks made it possible to assess this for each team. Our findings are the same for the right to approve loan characteristics, which is not delegated to SME loan officers. We also observe that the size of operational units in consolidated banks affects the right to approve the cost of the loan. That is, the smaller the unit, the greater is the level of centralization of loan cost approval rights. Concerning the delegation of control rights to middle management and between the members of a single team, our analysis shows that the larger the units and the greater the distance separating SME loan officers from their immediate superiors, the greater is the level of control exercised by these superiors. Our findings thus show that a reduction in staff numbers in the operational units of the acquired banks reduces the level of cooperation and limits the effectiveness of mutual supervision between individuals. An increase in the number of tasks allocated to loan officers and the use of a financial incentive scheme strengthens mutual control through a rise in communication and control between the members of each team.

Despite its contribution to understanding of the consequences of mergers and acquisitions on the granting of SME loans, our study has a number of limitations. Its context is exclusively French, and although this sector is strongly influenced by internationalization, the relative importance of certain national characteristics – historical, cultural and regulatory – might be highlighted by broadening the sample to include other French and European banks. We might also enrich our analysis by applying it to other

hierarchical levels in consolidated banks or comparing our results from acquired banks with those in acquiring banks. Indeed, according to Hattori et *al.* (2012), focusing on the loan officer as the only player in this process is insufficient to study the relationship lending process. It would be interesting to extend the analytical framework through organizational architecture to other participants in the SME lending process. Finally, in this study we have only analyzed one of the three components of organizational architecture. The study could be enhanced by investigating how other mechanisms evolve, such as incentive and appraisal systems for loan officers in the context of banking consolidation. SME financing remains nonetheless an important issue for growth and employment. Banks are extremely important players in this area, and the sector will doubtless undergo further consolidation in the future. Improving understanding of the consequences of these on the ground in operational terms should contribute to improve SME loan policies, and more widely the relations between such businesses and their banks.

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