Journal of Management and Economic Studies
2020, 2(3): 166-175 DOI: 10.26677/TR1010.2020.620
Journal Homepage: https://www.jomaes.org

The Effects of Internal Control Problems and Tolerance for Ambiguity on Lending Judgments[1]

Arnold SCHNEIDER
Scheller College of Business, 800 W. Peachtree St., Georgia Institute of Technology,
Atlanta, GA 30308 USA
aschneider@gatech.edu

Abstract

Purpose: This research examines whether lenders' judgments are more adversely impacted by disclosures of material weaknesses versus significant deficiencies in a borrower's internal controls. This study also examines whether lenders' tolerance for ambiguity affects lending judgments.

Methodology: An experiment was conducted with lending officers, who provided risk assessments and lending probabilities for a hypothetical loan applicant company. One independent variable, the company's internal controls, was manipulated using two levels – material weaknesses versus significant deficiencies. The other independent variable, tolerance for ambiguity, was measured with a commonly used scale for this attribute.

Major Conclusions: The severity of internal control problems had no effect on either risk assessments or probabilities of granting a line of credit. In addition, tolerance for ambiguity did not affect risk assessments, but lenders with a high tolerance for ambiguity had an average credit granting probability that was lower than lenders with a low tolerance for ambiguity.

Keywords: internal controls; commercial lending; tolerance for ambiguity.

[1] I am grateful for the research assistance and comments provided by Suyun Wu.