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Organisation Development (OD), Credit Administration and Recovery: A Mechanism for Business Growth

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Abstract- Organisation's development co-opts diverse human resources for the accomplishment of a common goal, while considering the dynamic nature of the environment through long term planning. However, this alone, without the proper mix of capital funding cannot work. Finance is the life wire of any organisation, therefore it becomes necessary for the way and manner sourced funds are being administered. This paper examines the way the human resource is utilize, the proper way credit should be given and recovered for the growth and development of any business. It went further to ascertain the impact non recoverable credit has on our economy, particularly from the distressed banks perspective. Three recommendations were proffered, one of which is proper and constant training and evaluation of credit managers.

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Organisation Development (OD), Credit Administration and Recovery: A Mechanism for Business Growth

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I. Introduction

Organisation is concerned with the proper mix of human and material resources for the attainment of set goals and objectives, it is the grouping of diverse talents, in a change enforcing environment to obtained their combined efforts possible maximum benefits. Organisation development tries to improve performance, mostly through capacity building and long term planning. It does this first by identifying causes and symptom of poor performance that is attributable to human activities from the top, and the application of correctives measures, using behavioural science knowledge. It is in this vein that Peter kilby talked about adoption, he argued "that the critical entrepreneurial function is adoption.

The symptom could be low profit, productivity, sales, earning, caused by wrong use of labour and capital combination, bad marketing skills, illiquidity, poor income pattern, and bad credit management. In the course of improving an organization, a lot of factor combination takes places, and a balancing of these factors for efficiency and effectively becomes imperative.

This study focuses on the ability of the organization to administer credit (account receivables, trades credits, bank loans and advances) and recover same for improve performance (development) of the organization. The first section covers the objective, characteristics and assumptions of Organisation's Development, the second discusses the Concept of Credit, its Administration and worthiness; while the third section examines Credits Recovery techniques, considerations opened in line with the Nigerian Banking experience. Finally, conclusion was drawn and recommendation made towards enhancing business growth.

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a) Objectives or Organization Development

Varieties of considerations get into organizational development plan, the aim being to ease direction and control. The major objectives in any situation are as follows:

i. To proffer creative or adoptive solution to problems
ii. To treat organisation's problems as fast as they emerge
iii. To involve individual and group or joint responsibilities in planning and implementing organizational activities (MBO)
iv. To motivate and create job satisfaction among employees.
v. To induce support and trust among employees.
vi. To acknowledge and recognize skills in job situations
vii. To effects the free flow of communication (French and Bell: 1984)

For an organization to develop efficiently and be effective as well, well qualified person must be appointed and the focus must be on job description and evaluation principles. It will involve planning and control mechanism that takes into consideration experience and the ability to generate useful data that will show the way forward.

II. Assumptions & Techniques

The basic assumptions in an organization's development programmes are the changing attitudes and perceptions, of (i) Individuals (ii) Group members, and (iii) Organisation members, as it relates to what should be done and how it should be done. There is the assumption that the design of the organization behave. The desire to grow and develop as well as the strong need to be accepted by others within the organization, as other assumptions.

However, in the course of implementing these programmes, some deviations may arise thereby creating the need for some kind of interventionist techniques to be applied. The technique opened becomes:

a) *Diagnostic activities:* Here he current conditions or situations of the organization are checked, through the use of questionnaires, interviews, survey and meetings to access various variables, and the outcomes will determine further actions.
b) *To group techniques:* this is also called a sensitivity or training groups. Here a panel of experts are grouped together for the purpose of learning, with group member acting as a mirror for one another. Members are to access the behaviour of each member of the group with a feedback procedure in place to know how he is being perceived.
c) *Team Building:* This promotes trust among team members, as it is intended to improve effectiveness and satisfaction of members of the team. The team meets and discuses problem and proffers common solutions.
d) *Survey Feedback:* This is a learning tool in which employees respond to questions that measure perception and attitudes. The result of this survey is given back to the individuals or groups concerned.
e) *Third Party Peacemaking:* This is a conflict resolution style, in which a third party, usually an OD consultant mediates. The consultant uses a variety of techniques to resolve any problem between individuals or groups. (Ceviffin, 1996:266 & 367).

All techniques of organizational development are to induce change for growth of the organization and also create organizational warmth, even though time and circumstances of usage may differ from organization to organization. Therefore, the application of organizational development (OD) is relevant to credit administration as well as recovery of same, if organizations must grow.

III. Concept of Credit

The term Credit involves from the Latin word "Credere" meaning to "believe" or to "trust" It is therefore an account or an asset given to a borrower on trust.

Granting of credit (Accounts receivables) is an important function to many people and for many reasons in a market economy. It allows for the employment of available resources by channeling funds from the surplus to the deficit units. It cements the relationship between borrowers and lender and also generates income to the lender possibly through increase sales where necessary. (Perry; 75: 384) asserts that certain questions that must be asked includes (i) How much does he want? (ii) What is it for? And what is the source of repayment. However, other factors are:

- Determination of a borrowing plan;
- Credit standards and;
- Credit terms.

The Borrower must develop a good feasibility study to confirm that business is worth supporting, at least in terms of viability and profitability.

He must also ensure that proper records or documentation is done and all highlights included. The gap between what he wants and what he has and the borrowers cash flow position facilitates the activity. The timing or duration of the facility must be determined, because short term credits are self liquidating, which of course could be needed as a result of seasonal fluctuation. In fact general information about whom the facility is given must be known.

a) *Credit Standard*

Having determined the nature of credit risk from information relating to past records of the client, current networth and financial stability of the client. Then the cannons of lending will come to play.

(Rose) put it as:

i. *Character:* Responsibility, truthfulness, serious purpose, and serious intention to repay all monies owed make up what a loan officer calls character. The loan officer must be convinced that the customer has a well-defined purpose for requesting bank credit and a serious intention to repay.
ii. *Cash:* The fundamental element of any loan application revolves around the question; does the borrower have the ability to generate adequate cash, in the form of cash flow, to repay the loan? Generally, borrowing customers have only three sources to draw upon to repay their loans: (a) cash flows resulted from sales on income, (b) the sale or liquidation of assets, or (c) funds raised by issuing debt or equity securities. Any of these sources may generate enough cash to repay a bank loan. The loan officer's evaluation of a borrower's cash flow involves asking and answering such questions as these: Is there a history of steady growth in earnings or sales? Is there a high probability that such growth will continue to support the loan?
iii. *Capacity:* Ability to repay borrowed funds by the debtor. Is the business financially strong enough to repay from internally generated funds? The loan officer must be sure that the customer requesting credit has the authority to request a loan and the legal standing to sign a binding loan agreement. This is what is known as the capacity to borrow money. For example, a minor (e.g., under age 18 or 21) cannot legally be held responsible for a credit agreement; thus, the bank would have great difficulty collecting on such a loan.
iv. *Condition:* The sensitivity of the operating income and cash flows to the economy. How is the

business (debtor outfit) being affected by government policy, natural hazards, competition etc. The loan officer and credit analyst must be aware of recent trends in the borrower's line of work or industry and how changing economic conditions might affect the loan. A loan can look very good on paper, only to have its value eroded by declining sales or income in a recession or by the high interest rates occasioned by inflation.

v. *Collateral:* Types of assets pledged as secondary source of repayment. Is the asset offered adequate and easily realizable? The better the quality of the collateral, the lower the risk of the credit. In assessing the collateral aspect of a loan request, the loan officer must ask: Does the borrower possess adequate net worth or own enough quality assets to provide adequate support for the loan? The loan officer is particularly sensitive to such features as the age, condition, and degree of specialization of the borrower's assets.

vi. *Control:* The last factor in assessing a borrower's creditworthy status is control, which centers on such questions as whether changes in law and regulation could adversely affect the borrower and whether the loan request meets the bank's and the regulatory authorities' standards for loan quality.

IV. Credit Terms

This covers the agreed conditions before credit is extended. It takes time frame into consideration, the level of activities to be carried on by the debtor outfit, and the expenditure pattern. At times a cash discount terms of 2/10 n 30 can also be given, which means one can deduct 2 percent if one remits his funds 10 days after billing, but failing this, he must pay the full amount by the 20th day (Black and Hirt 209), thereby reducing from the face value what should be given, which can equally expedite payment.

It is after all the above mentioned criteria must have been fulfilled, that disbursement is made. Disbursement again, will only be possible, when the supplier of the credit is liquid enough, as well as the fulfillment of statutory and other requirements (legal, safety etc). The suppliers cannot extend actual disbursement if it does not have funds. However, after disbursement comes recovery.

V. Credit Recovery

As earlier indicated, disbursement precedes repayment, but in between comes regular review of the financial position of the debtor - outfit. Reviews of its business activities, regular and unscheduled visits, inter Socking monitoring arrangement and then control through compliance of Agreement In order to understand if the time frame of credit terms is followed, the aging of account reliably comes to play using;

$$\frac{\text{Ratio of bad debts}}{\text{Credit}}$$

The inability of the borrower to pay interest and possibly capital as at when due, these bring about non performance of credit, with the worst being a loss.

a) *Reasons for Credit Going Bad*

i. Poor appraisal of proposal by lending officer
ii. Poor quality of financial statement used for analysis
iii. Insensitivity of economic and environmental trends.
iv. Loss of market
v. Inadequate project monitoring
vi. Incomplete knowledge of customer's activities
vii. Bad management of accounts
viii. Poor judgment
ix. Inadequate funding
x. Inadequate or inappropriate equipment
xi. Over-reliance on pledge security
xii. Raw material shortage.

However, an alert monitoring officer could sight these signals afar and put-up measures to curb them. Some of the danger signs are as follows:

- Poor quantity of current assets
- Heavy borrowing from other sources
- Delay in payment of trade accounts
- Low account turnover
- Delay in producing audited financial statements.
- Inability to meet loan installment payments.

If these signs continue unabated, then a recovery plan is necessary to forestall a debt being bad and doubtful, and eventually becoming a loss. Credit recovery approaches are as follows:

- *Factoring of the Debt:* A lender could also sell off the debt to a factor firm either with recourse or without recourse. Of course a factor for recourse will be for a very high rate of discount.
- *Legal Proceedings:* This is usually done in an extreme case and sometimes as a last resort, because it is cumbersome, expensive and time consuming-It's also a bad way to terminate what probably was an interesting business relationship.
- *Realization of Securities:* This presupposes that the lender has a perfected title over a security pledged by the borrower which could be converted into cash.
- *Debt Collector:* Where the amount involved is small the lender can pass the recovery of such debt to a debt collector, so as to reduce unnecessary expenses.

b) Bank Loans and Advances

In the developmental process of a nation, bank rote is pivotal, and intermediating for sustainable economic growth and development.

However, the inability of banks to meet their maturing obligations as at when due, is linked to bad credit management, poor disbursement and recovery methods. For many banks in Nigeria, the genesis of their financial crisis (distress) began with poor fending practices, Credit are channeled to non productive sectors through insider abuse, coupled with poor or non monitoring and control measures, as well as recovery techniques.

The logical result of the aforementioned loop holes is nothing but bad, doubtful loans and then distress. The crisis in the industry has been protracted and systematic, as the monetary authorities closed about 26 banks at a fell swoop, and (Union) in (Ebhodahe:1995) posits that the distressed institutions increased from 28 in 1993 to 45 at the end of 1994. There are also scholarly assessments of the crisis such as the works of Onwu (1994), Ekpenyong (1994), Afolabi (1994), in (Akpan; 1999: 190).

Data Presentation

YEAR	GNP (Y)	LADB (X,)	INF (X,)	INT(X_3)
1989	224.8	4.3	40.9	26.80
1990	260.6	6.4	7.5	25.5
1991	324	5.4	13.0	20.01
1992	549.8	15.7	44.5	29.80
1993	697.1	25.3	57.2	36.09
1994	897.5	45.6	57.2	20.19
1995	1977.4	48.9	72.8	20.20
1996	2833.2	51.7	29.3	19.10
1997	3292	49.6	17.5	18.40
1998	3720	50.1	10.2	18.30
1999	3921	51.8	6.6	21.30

Sources: NDIC quarterly, vol 9(3), CBN Statistical Bulletin vol. 10 (20)

Data for this study, were from CBN Statistical Bulletin and the Nigerian Deposit insurance Corporation (NDIC) quarterly. The variables used includes the GNP (Output) as a dependent variable, and other monetary credit) policy variables of loans and advances of distressed banks, inflation rate and interest rate. This was to ascertain the effect of delinquent credits of distressed based on the Nigerian economy; within the period under review - 1989-1999 (eleven).

VI. Model Specification

The functional form of the model was given thus Y - f (X_v X_2, X_3) (1)

Where Y = GNP (income)

X, = Loans and Advances of Distressed Banks (LADB)

X_2 = Inflation Rate (INF)

X_3 = Interest Rate (INT)

Specifically, we have

GDP - f (LADB, INF, INT) (2) and

Mathematically, we have

$$Y - bo .+ b/, + b_2x_2 + b_3x_3 \quad (3)$$

Transforming eq. (3) to the natural logarithm we obtain:

$$\text{In GDP} = b0 - b,b_n \text{ LADB} + b_2 \text{ In INF} + b_3 \text{ In} \quad (4)$$

Where:

GDP = Income

LADB = Loans and Advances of Distressed Banks

INF = Inflation Rate

INT = Interest Rate

Our null hypothesis of no significant relationship between credits of distressed banks and the Nigerian economy was tested using the ordinary least square (OLS), of the Social Science Statistical Package (SPSS), and accepting the transformed log-linear model; so as to reduce or remove heteroscedastic errors.

From the log-linear equation, as shown on the appendix, we have the following results:

In GDP - 6.614B + .983InLADB - .27SInINF - .590in INT

(7.866) (-2.014) (-.987)

Multiple	R	=	.966
	R^2	=	.934
	F. Ratio	=	32.784
	D.W	=	2.2

Note: t - Statistics are in parenthesis

With the Coefficient of determination (R^2) of 93 percent, it suggests that about 93% of variations in the dependent variable is caused by the explanatory variables.

The t - statistics shows that the Coefficient of loans and advances (credit) of distressed banks of 7.87 > 2.37 in the table at 5 percent level of significance. However, the positive sign shown by its coefficient negates our appriori expectation, using the log-linear model.

In testing the hypothesis therefore, our t - calculated (7-87) is greater than t -tabulated (2.37). This shows that loans and advances of distressed banks significantly impact on the nation's economy. Also the F-ratio of 32.784 > F-table (4.35) at 5 percent level of significance showing that the entire model is significant.

Our Durbin Watson (D.W) of 2.2 shows that there is some degree of strong negative autocorrelation among the variables used for the study.

With the high level of F-ratio and the t_c - (7.87) being greater than t_t (2.37) at 5 percent level of significance; we therefore reject our null hypothesis of no significant relationship between distressed banks credit and the Nigerian economy.

VII. Conclusion

Organisation development concentrates on capacity building, i.e. the attitudes and behaviours of employees though diverse are worked together in a systematic arrangement that considers long-range planning. This leads to improvement in organizational performance, especially after being involved in virtually all the processes and procedures of the organizations activities. Their participation and contribution in the sourcing and application of funds put in a better place to work efficiently in terms of credit extension, as well as credit recovery, where and when necessary.

In fact with their idea of improving employees relations and position (OD) and the provision of credit where necessary to "partners through and through" (credit Admin.); as well as the recovery of same being timely, enforced; the performance of outfit, otherwise growth is not in doubt.

VIII. Recommedation

There should be a constant training and evaluation of employees to have a unified sense of purpose for organizational performance.

Credit extension should be done diligently, supervised, monitored, so that the habit of following your customer (debtor) from grace to grass to grave "if need be back to grace" should be imbibed.

Recovery of funds should be timely done, not on till the loan becomes a loss before the firm to starts recovery procedures. As soon as the danger signals are sighted, efforts toward recovery should commenced forthwith.

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