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OVERVIEW OF MANAGEMENT AND FUNCTIONAL ACTIVITIES IN NIGERIAN BANKING INDUSTRY

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Abstract

Banks and banking has become synonymous with business management and economic development. The importance of banks to the economy ofevery nation cannot be overemphasized. It is in most cases the driver of the economy in most countries. This is because it deals with the monetary policies while the ministry of finance deals with the fiscal policies. This paper discusses the various roles of various office holders within the banking industry in Nigeria as well as the credit risks involved in the administration and management of loans. It recommends a holistic and inclusive management of both banks and credits to the economic health of the nation.

Keywords: Banking, Management, Credit administration, Economy, Customers

INTRODUCTION

Today, banks all over the world are moving from the traditional and well entrenched practices, which in all facets is the slow and steady approach to the fast and efficient ways as dictated by the generational changes and new waves of technological application into the practices of banking. Therefore, the recent economic downturn, regulatory change, and emerging

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technologies have combined to change the way bankers think about marketing, product development, business management and risk management practices. Despite these waves of changes being incorporated by bank managers, many if not all banks still facemultifarious challenges in today's dynamic marketplace. In a global economy which today has become increasingly competitive, all banks need efficient development of products that quickly satisfy a more demanding customer base and build long-term customer trust. Furthermore, banks must enhance risk management and address a broad range of regulatory changes that require reporting with greater standardization and transparency. Banks must also optimize both internal and external innovation, while seeking operational excellence at all levels. Today, banks are looking beyond traditional practices to new ideas and tools that analysts and prudent leaders have identified as best for the industry. This paper dwells on the functional activities in the Nigerian banking industry and the risk management issues associates with them.

REVIEW OF RELATED LITERATURE

Management in General Perspectives

Management is not exactly a science; in fact, it is as much as a science as well as an art. It uses scientific tools such as statistics, Mathematical processes, and logic in fulfilling its functions. Quite often, management faces problems that cannot be resolved by application of scientific techniques. At such times, the Manager may need to use intuition, experience, and other personal judgments which are more of art than science. Above all, management is a practical matter which has to deal with people, physical goods, buildings, cash and intellect. The successful manager is one who is able to combine all, or some of these elements to make a success of his mission which in most cases are profitability and or the social welfare of the society.

Defining Management and Management Elements

Management is certainly one subject that can be defined in many ways but the key elements which are the use of resources and attainment of corporate objects must be incorporated in any of such definition for it to be acceptable.

E.L. Brech, cited in Pilbeam (2010) defined management as "a social process entailing responsibility for the effective economic9 Planning and regulation of the operations of an enterprise, in the fulfillment of given purposes or tasks; such responsibility include but not limited to:

a. Judgment and decision in determining plans and in using data to control performance and progress against operations.

b. The guidance, integration, motivation and supervision of the personnel composing the enterprise and carrying out its operations."

The key elements of management are: Planning, control, co-ordination, motivation, authority and responsibility, decision taking, accountability, and communication, (Handy 2000).

Planning and Control: Some planning functions could even be more complicated and more taxing than the other. It is therefore important for managers to lay out detailed plans of work to be done and the desired results to be achieved before the commencement of the work. While planning is the starting point of the Management process, control is also essential. It provides the watchfulness and the feedback process which are essential for monitoring, and plan achievement. Some of the usual elements in a typical bank setting requiring monitoring and control are:

1. Cash control
2. Stationery Control
3. Credit Control
4. Budgetary Control
5. Control of overall planning process to ensure that implementation of policy objectives do not derail.

Coordination: Kanji, (1998) stressed that the act of dovetailing, and harmonizing all the activities of the organization is coordination. This entails that all the segments of the organization work in harmony, where necessary one arm complements the other to make maximum efficiency possible. The process of synergy where many units departments or divisions of a conglomerate are coordinated to effect the desired overall performance in business illustrates the concept best.

Motivation: A key issue in management is achieving results. Results are best achieved when the cooperation of all employees are enlisted. Modern Management shows that cooperation is not achieved through coercion as of old; people must be motivated to stay on the job, and put in their best for corporate goal, (Handy, 2000).

Decision Making: The operation of all types of business requires decision taking, either instantly or as a result of careful and (systematic planning. In spite of all the advancement in information systems and the use of computers, the ultimate decisions still have to be made by Managers through the exercise of their intellect and judgment intuition.

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BANKING SCENARIO IN NIGERIA – 1960 TO 2000

Banking is the most highly and closely regulated of all businesses in Nigeria today. This has to be so because of the overriding and imperative necessity to ensure that banks conduct their businesses as providers of credit, and they facilitate means of payments within the economy. The very close regulation in the banking industry is to avoid failure of the system the occurrence of which could have devastating consequences on the economy, a situation that must be avoided by all means. The institutional banking environment is presently provided by the Financial System which is made up of the financial institutions and: instruments which deal wholly in financial assets and liabilities. The institutions can be compartmented into the Central Bank, the commercial banks and Insurance companies. Alternatively, they can be described as:

- Apex Financial institutions such as the Central Bank, the Nigerian Securities and Exchange Commission, and the NDIC that insures all deposits of financial institutions.
- The banking institutions, comprising the commercial and Merchant banks, the development banks i.e. NBCI, NACB, FMBN and NIDB, Peoples Banks and Community banks.
- The non-bank financial institutions such as the Finance Houses, and the Mortgage Finance Companies.
- The Financial Markets comprising of the money and capital markets, the stock exchange and the stockbrokers.

It is however, noteworthy to state that:

1. There was a slow growth before independence (1960) and a rapid growth after independence. While there were eight banks at independence, there are not less than one hundred and twenty banks in operation today (1992) - people's and community banks excluded.
2. A striking feature of bank Management in Nigeria is that before independence, British banks, First Bank PLC and Union Bank PLC dominated the banking scene, but after independence banks from other countries came on the scene. Such banks are UBA, Savannah Bank, Afribank, etc. It is interesting to note that as foreign banks were established in Nigeria so did Nigerian banks establish branches and offices in foreign countries. As at 1987 there were eight branches of Nigerian banks in foreign countries. While Nigerian banks concentrated their operations mainly in Nigeria the foreign banks and their branches provided international links in the financing of international trade and the flow of foreign exchange. The foreign banks also exposed Nigerian banks to competition and to inflow of new financial technology.
3. Government intervention is another feature of the institutional environment under which banking has been managed in Nigeria. This took place in the early times, as a result of the Indigenous Enterprises Promotion Decree (1977) designed to enable Nigerian control the

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"commanding heights" of the economy, and to get intimately involved in commercial banking activities, so as to guide them to operate to the maximum benefit of the economy in between the Enterprises Promotion Decree days and the Structural Adjustment Programme (1986) there has been various other forms of government intervention in the Management of banks in Nigeria.
4. Since the SAP days in 1986, there has been an influx of new banking institutions. Government had to place embargo on licensing new banks in 1991 in order to give breathing space to the existing banks to stabilize themselves.
5. A major environmental development on the Management of banks in Nigeria is the tighter controls on the bank by the Monetary authorities, in order to ensure a more effective Credit control by reducing liquidity in the system and thereby reducing pressures on inflation and the naira exchange rate. The CBN has used several tools to achieve this - mainly issuing of stabilization securities.

In furtherance of the control measures, the CBN demonetized the import deposits with the commercial and merchant banks awaiting foreign exchange releases, and in 1989 ,it abolished the autonomous market in foreign exchange. The March 5th, 1992 Foreign Exchange Market re-arrangement is the most far reaching government intervention in bank management in Nigeria. By changing the entire banking landscape, these developments, have brought about what may be descriLe0. a revolution in Nigerian banking. No bank Manager can afford not to reckon with these rapid_ and overwhelming developments.

Objectives of Banks

CBN (2009 &2010) stressed that the objectives of a bank may change over time, but once formulated they are regarded as a firm and binding contract. They are usually stated in short, concise terms and limited in number. A typical banks objective may be stated as follows:

- To sell financial services first in a regional setting, and then extend services to other parts of the country.
- To strive for stability in earnings growth, acquire investments of high quality and pursue sound and innovative banking policies through strategic planning, and strong management monitoring and control.
- To expand income sources, and control costs overhead to enhance profitability.
- To increase share of market through superior service delivery and appropriate products development. 5. Management will provide continuity of policies and direction.
- Changes will be implemented quickly and in a manner that considers both individual and corporate needs.

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- The bank's objective is to promote people within the organization to higher positions of responsibility. However, expansion into new fields and the need for specialized talent may require hiring people from outside sources to occupy vacant posts.
- The bank will be sensitive to Social and Economic matters within its geographical area of operation.

THE ROLE OF TOP MANAGEMENT IN BANKS

The Board of Directors

The Board of directors represents the top level of management. Directors are seen in law as the custodians of the shareholders' funds, and they are required to safeguard the assets of the bank, and guard against misuse of funds. The size of a board of directors varies from bank to bank, but the maximum number allowed by the Banking and other Financial Institutions Decree BOFID is seven.

Main Duties of the Board

- The Board is to determine policy and establish overall plans for the bank. The policy of the bank specifying what is to be achieved and the broad manner in which it is to be achieved is the main responsibility of the board of directors. This will lead to the issuing of policy documents specifying the overall objectives of the bank. It is important that the policy be stated in writing so that the Managing Director can interpret the intentions with the minimum risk of confusion to his Management Staff.,
- The Board is to provide advice and leadership for the entire operations of the bank and it is the final decision making body for the management team of the bank.
- The board is to authorize expenditure on Capital items. Usually a limit is set, above which approval for expenditure must be sanctioned by the board. Similarly, the appointment and promotion of Senior Managers to high positions is the duty of the board.
- Selection/Employment of good management staff is an important function of the board of directors. Usually, it is difficult to find skilled bankers who will readily leave their current places of employment, more so in recent times when there are many new banks in the market. Board members do all they can to persuade known performing bankers to come over to their management team. Staff poaching is a familiar phrase in the banking industry in recent times.

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- Committees - In addition to selecting competent management staff, the board of directors has a duty to create standing committees. The Committees are usually selected mainly among board members, but competent management staff could also serve on some of the committees. The committees could be used to coordinate the activities of some bank departments, or serve to handle certain urgent matters which cannot wait for full board meetings. Usual board committees are: Finance and Budget Committee, General Purposes Committee, Review/Credit Committee, Appointment and Promotions committee.

Reports of various committees are usually presented at board meetings for ratification before their recommendations are implemented.

- Business Development - well-connected board members can, and should influence many depositors and borrowers to patronize the bank. A bank which has prominent doctors, lawyers, businessmen, manufacturers and well established Accountants on its board is in a better position to attract new businesses than a bank with directors of less status.
- Review of Bank Operations - Though bank directors are busy with their own businesses, and professions, they must maintain general supervision of the affairs of the bank. This has to be done through periodic review of the bank's operations, usually at monthly meetings at which various reports prepares by management are reviewed. At times oral or visual presentations are also employed.

The Chairman

The Chairman of Board is elected as leader of the board and has the responsibility of controlling the scheduled board meetings, and the Annual-General Meetings. He/she reports on behalf of the other board members to the shareholders on the board's performance as steward of the shareholders' funds. He chairs the policy framing discussions and co-ordinates the developments of overall policy plan. The board is open to challenges from shareholders at the AGM when the trading results of the bank are discussed. Responsibility for ensuring that the e-, policy of the bank is clearly articulated rests with the board, but its interpretation and implementation are the duties of the Managing Director.

The Non-Executive Directors/Outside Directors

Non-Executive Directors or outside Directors or part time directors are board members without specific responsibilities attached to them. They make contributions by providing advice and

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counsel at board meetings. Such Directors are usually widely experienced in their various fields of personal endeavour be it academics, business or the professions.

Executive Directors

The incidence of Executive Directorship is a new phenomenon in Nigerian banking scene. It came along with foreign partnership in the banking industry. They are co-directors who have divisional executive functions. In a typical instance, the whole banks may be divided into two or three divisions with an executive director as the head of each of the divisions. He is responsible to the managing director/chief executive of the bank who oversees the ED's work. Under the ED's are the various other management staff - such as the General Managers and Assistant General Managers and other senior managers who head the various departments and units of the bank. All this staffs are head office personnel who report to their line superior officers with the executive directors as the ultimate boss of the divisions.

The Managing Director

The Managing Director (MD) is the Chief Executive of the bank and acts as the operating head of the Management team. He reports to the board on the results of his implementation of the board's policy. He Managing Director and Chief Executive's Principal roles can be described as follows:

- He should create and maintain an appropriate organizational structure for the bank.
- He should coordinate the activities of the various parts of the bank.
- He has a duty to stabilize the bank by making active efforts to build up high morale among the staff, for example, he should encourage younger managers, officers and supervisors to stay on their job especially in this era of high rate of job mobility.
- He is the one man whose primary concern is for efficiency, progress, continuity and vitality for the bank. He has a duty of overall view of the bank which success or failure reflect his ability to perform or otherwise.
- As a fellow Director, he-contributes to the policy formulation and overall control functions of the board.

OPERATIONAL MANAGEMENT FUNCTIONS

So far we have discussed in outline form top management and duties assigned to each office. In this chapter, we shall be concerned again, in outline manner with the officers that are concerned with the day to day operations of banks at Head office level. These officers differ from bank to

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bank, but the usually common posts will be identified and an outline of their functions enumerated.

The General Manager: the position of General Manager of old in banks was the Chief Executive and a board member. While the situation is still the same in a fc4"banks today, the position has changed in most banks. He is today a divisional head of a very big bank, especially where the position of Executive Director is not in place. He is a seasoned hanker a knowledgeable professional, and thoroughly schooled in the contemporary economic environment. He is able to control co-ordinate, and take decisions in hard situations with little delay. Above all he is expected (ideally) to have grown with the bank, that he understands the functions of virtually all the divisions, unit, and departments. He should be a Chief Executive in waiting. This man must understand the moods of his staff and be able to pacify an aggrieved labor union when necessary.

While a General Manager in banks is expected to be able to function effectively in virtually all the divisions/units of the bank, he will usually be posted to a division/department where he can perform best. For the purpose of this paper, essential divisions, units and departments of banks where general managers could head are listed below with usual managerial functions attached to them.

Banking Operations: This is an Head Office Department with responsibility for credit matters as the core function. In some banks the operations department has Treasury and marketing attached to it. The logic is very clear for this arrangement. Marketing goes aground to sell the bank to the public, thereby winning accounts and deposits. The Treasury utilizes someof the deposits in interbank trade - if large deposits are mobilized and the Treasury is also raise funds from interbank market when the bank is short of funds and has to square up clearing deficits or settle maturing liabilities. All these functions are coordinated by the General Manager operations, as peripheral duties. In the main, he--is the Chief Advances/Credit officer. Funds mobilized through marketing treasury activities are made available as input to his department for purposes of investment into lending on long or short term basis (loans advances and overdrafts), commercial papers Bankers Acceptances, leasing, LPO financing, Warehousing/hypothecation advances, Agricultural credit, import and Export financing and as many other profitable products as the bank may have developed over time.

To assist the GM operations carry out these duties properly he must have a team of other experienced senior officers who may be of Deputy General Manager, Assistant General Manager or Principal Manager grades. Below these very senior grades, there will be other officers who specialize in one or some of the areas in which the department operates. In large

banks all the officers named above will be a necessity, but smaller banks will appoint such officers as they expand gradually, both at head office level and in branch network.

In between the Head Office and the Branch network, are Area or Regional offices. These formations are part of Head Office, and they are put in place in order to relief Head office of much work and to quicken response to customers in their various requests, especially in credit matters which are operations responsibility. The Area/Regional office concept is relevant to big banks only. The Banking Operations Department has in recent times added a major Unit to its kitty and that is the Debt Recovery Unit as a result of many non-performing assets (loans and advances). This unit has the responsibility of virtually running after slow accounts (debtors) who have refused to move their accounts, to some extent as a result of the downturn in the economy. In some cases, this may be due to unwillingness of customer to repay.

It stands to reason therefore that the General Manager operations, and his immediate lieutenant has a large role to perform in ensuring that the bank operates profitably- sourcing funds and using them proficiently. Of course this role which we refer to in macro-economics as Financial Intermediation is the key function of banking operations Department. This department must therefore attract seasoned marketers, treasurers, credit analysts (reviewers) financial market watchers/forecasters and debt recovery experts.

In many banks it is the responsibility of this department after obtaining input from planning and research department to put in place an appropriate Interest Rate Structure for the bank. This is done through constant reviews of the money market operations, and realistic comparative analysis of statistical data.

Administration/Personnel and Services Department: This is usually another big department which a General Manager or Assistant General. Manager may head. The department deals with recruitment of new staff, upgrading of serving staff, and sees to the general welfare' of staff. The Department arranges for medical attention of staff and their family, hotel services for staff in transit, staff training programmes and transport facilities.

Other services such as acquisition of bank houses, offices, furniture stationery, equipment, and machines fall within the functions of Admin department. In some banks, Organization and Methods Units are attached to this Department, while in some other banks O&M is attached to Inspection or Audit Department. Admin Department LI6 the Staff Welfare Unit of the bank, and its core staff are not necessarily professional bankers, but they must know enough of banking to feel at home within the community of bankers. In some banks the General Manager or Executive Director in charge of banking operations adds this department to his

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functions. This idea cannot be contemplated in the really big and old banks. Admin will surely stand on its own in big banks.

Inspection / Audit Department: The head of Inspection or Audit (inter changeable) is responsible for verifying the accounts resulting from the banks daily operations, and operation methods. His major duty is to examine the bank continually to ascertain whether or not business is being conducted in accordance with acceptable accounting procedures and policies established by the board of directors and the rules imposed by the regulatory authorities (CBN & NDIC).

The objective of inspection is to safeguard the assets of the bank against manipulation, misappropriation and waste. Through examinations of the bank's procedures the Inspector is able to detect discrepancies. The Chief Inspector who is head of the department reports to the board of directors through the Managing director and Chief Executive.

The Chief Inspector or Chief Internal Auditor is essentially an experienced banker. He/she is to have qualifications in Accountancy profession or banking profession. Other professionals of proven ability and integrity can serve in this position. This officer normally has a team of experienced auditors/inspectors who thoroughly understand routine banking procedures and the tricks which fraudulent staff may wish to employ. This is a sensitive department which should not be starved of personnel and tools in order to safeguard the assets and the image of the bank. The Accounting or Chief Accountant's Department: In many banks, this is a department of the Finance division. The Chief Accountant who is of AGM status heads this Head Office department. Usual duties ascribed to this department include.

1. Gather and interpret data of value to the bank management to enhance wise decision making regarding policy and operations.
2. Compile and compute monthly, quarterly and yearly accounts of the bank ready for external auditing.
3. Checks on the operational functions of the bank with a view to advising areas of cost saving for the bank.
4. Collates monthly, quarterly and other periodic returns for use of regulatory authorities i.e. the Central Bank and the NDIC.
5. This department should be concerned with new procedural improvements, new machines and new methods.
6. In many banks the main Accounts or Chief Accountant's department is responsible for Staff pay role.

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Computer in Bank Management: Computer is a new comer in bank Management in Nigeria. In most Nigerian banks, its development is not advanced. As a matter of fact many branch banks are not computerized, though concerted efforts are being made to go all out computing in banks.

Many banks do not have sweet stories to tell about their computer experiences. What with crashing at every light out? What with the hardware and software problems? It is true that there are not sufficient numbers of computer experts in banks, yet, those that are on stream seem to mystify computer work rather than to simplify it to the benefit of the industry.

There is no doubt that there is so much to be done to bring the obvious advantages of computer to bear on Nigerian bank management. Among other things introduction of computer to banking is to:

- Remove drudgery of work
- Fasten work operations
- Enhance accuracy of accounting
- Allow bankers more leisure time
- Enhance Management decision taking through dependable data input and processing.

Strategic Planning and Research in Bank Management: This concept is new. Interestingly, it is a concept which many boards and managements are not accepting readily. This is most unfortunate, because a bank that does not plan and research into new products will not open shop for long. This statement is underscored by the spate of high rate of competition in the banking industry today. A market where only eight banks operated in 1960 is the same market where over one hundred and twenty five Commercial and Merchant, banks alone operate today (1992) while the number of People's bank branches Community banks, urban development banks, non-bank financial institutions, mortgage banks etc. cannot be correctly assessed presently. They are just many looking for funds from the same market, and investing in the same market. The planner and researcher banks only will survive ultimately while others fold up. This unit is usually manned by staff who have academic and research orientation and who are prepared to do in-depth study of the in-house operations of the bank and the immediate external environment as the latter impinges on the former. Senior Managers or Assistant General Managers head this department in most banks at present.

Foreign Exchange/Bills Department: Before 1986, this Unit was more prominent in the Central Bank than the other types of banks. The creation of Foreign Exchange Market in 1986 shifted the show to the Commercial and Merchant banks as customers had to bid for foreign exchange

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through their banks. On 5th March 1992, when the exchange rate at official market (FEM) equalled what was obtainable at the parallel market, the struggle to obtain forex by customers through their banks relented. It is now cash and carry and the Central Bank has been able to meet all demands since the new arrangement was put in place.

To that extent, this department has not been as busy as before in most banks. The forex so obtained from the CBN through bids are new used to open letters of credit or pay bills on collection basis. Staff of Senior Manager or Assistant General Manager Head the department in many banks, depending on the size and age of the bank.

It is possible to examine other areas of bank management at head office level but what we have discussed so far will be adequate for the purpose of this paper.

Company Secretary/ Legal Adviser Department: This department is a key functional department as it serves as Secretariat to the board. The head of this department in the big banks could be as senior in rank as General Manager or Deputy General Manager. In the medium and small banks the company secretary is of Assistant General Manager status.- Among duties performed in this department are:

1. Keeping adequate records of board meeting proceedings, and conveyance of board decisions to the affected sections of the bank.
2. This department takes on litigations affecting the bank, either-- directly or by liaising with external solicitors.
3. The department advises the bank on all legal issues.
4. It prepares legal documents in respect of credit/advances to customers such as guarantee, bonds and most important perfect-ion of legal mortgages on securities.
5. The department either conducts searches or arranges with external solicitors to do so, in the process of verifying the genuiness or other wise of little documents submitted to the bank by customers in support of their loans and advances.
6. The department in some banks take on the function of private placement of securities only) while other banks have set up brokerage Units in their Legal Departments.

The usefulness of the Legal Department in bank Managerial work cannot be over emphasized, especially in recent times when legal matters and litigation arise on daily basis in the banking industry.

MANAGEMENT OF BANKS AT BRANCH LEVEL

The Branch Management is the lowest level of bank management as illustrated in the organizational Chart C attached. It is very interesting to note that the average customer and the

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general public who see the bank from a far distance do not know that there are higher authorities of a bank other than what is obtainable at the branch level. They see the branch manager as the all-knowing, and all doing, the most powerful man in the bank. This situation is more obvious in the rural setting. The rural branch manager has taken the else while position of the typical village headmaster who was consulted on all matters of importance in the village.

The branch, as per diagram is headed by the Branch Manager. In very big banks he may be a Senior Manager, Principal Manager or Assistant General Manager status. He is very important Management personnel, especially from the perspective of the public. He makes or unmakes the image of the bank. So, he should be very knowledgeable, experienced, amiable, and of very high public relations quality. He cannot afford to misrepresent the bank in any way or else there could be a run on the bank, in the face of the present day keen competition among banks.

Functionally, he is a very important person because he may be supervising a very large volume of bank assets. This is so in large and old branches where total investment in loans and advances plus physical assets in building, machines, equipment, and personnel are of tremendous value. The branch Manager usually has several years of experience in one or more areas of banking, and must have had an intensive study of the principles of management.

Various instructions, regulations, and policies pass through him from Area or Head Office down the line to other branch staff. Next to him may be a Deputy or Assistant Manager who should be a seasoned banker too, as he stands in for the branch manager when the manager has to leave the branch on leave or official assignments away from the branch.

At the Centre of operations in the branch is the Branch Accountant. He is virtually the nerve centre of the branch operations as all sectional officers report to him. He should have gone through the mill of branch work. In other words at one time or the other, he should have worked in all the sections of the branch.

The major units/sections/departments of the branch are advances, cash, current account, savings account, bills and foreign exchange. An experienced and well tested officer heads each section in big branches while experienced supervisors may head the sections in smaller branches clerks and non-clerical staff assists in the running of the branch as cashiers, entries clerks, counter clerks, or messengers.

CREDIT ADMINISTRATION AND MANAGEMENT

This is another very critical yet important section of banks. Credit management is the process of granting credit to customers by a firm and ensuring payment or repayment of such credits with

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minimum loss. The obvious question to ask then is what is credit? Credit enjoys a wide usage and application and can therefore be defined in the following or more ways:

a) Credit refers to the various types of lending facilities which banks grant to their borrowing customers. In that respect we talk of credit facilities, which interpret to mean overdrafts, loans and advances etc. as they relate to the banking industry.

b) Credit in ordinary business terms refers to the practice of allowing purchaser of goods and services time to pay for goods or services, which they collect from the sellers. The sellers may be the producers (wholesale) or retailers who buy from source to sell to end users in smaller quantities. The end users may also be the ones enjoying the credit if they have obtained the goods from retailers without paying immediately. The concept of the credit therefore is the granting time by the lender (creditor) to the borrower or (debtor) in the course of business. The goods are collected on credit while the creditor is paid later.

The more liberal the credit terms given, the higher the debts created and the more risks the company takes for possible bad debts and losses. Credit management is important because trade credit is the most prominent force in modern business.

Goals of credit management

The basic goals of credit management are:

i. To obtain optimum volume of sales.
ii. ii. To control cost of credit.
iii. iii. To keep cost of credit at the minimum.
iv. iv. To maintain investments in debtors at optimal level.
v. v. To maximize the overall value of the company.

Why do companies grant credits?

Most businesses grant credits to their customers in modern day business operations. Those who insist on cash sales are not likely to make much progress. Among others, these are reasons for granting credits:

i. It is customary to do so in virtually all trades.
ii. It enables expansion of the company market. In competitive situations, it may be the only way to increase turnover.
iii. Where only few or marginal customers are attracted to the product of the company, granting credit is a good bait.
iv. It enables the business to maximize profit. The larger the sales figure the higher the profits.

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v. It helps to retain old customers and win new ones.

vi. It enables the company to realize funds that have been budgeted from sales for the specific period in view in the overall financial plan of the company.

Why do trade debtors accept credit?

i. It is interest free.

ii. ii. It can be rolled over, thus becoming a consistent source of finance.

iii. iii. Lack of business capital of their own encourages debtors to accept credit.

iv. iv. Cost of borrowing from other sources such as bank and other financial houses may be very high and unaffordable to them.

Cost of granting credit

The company granting trade credit has the following costs to contend with.

i. Cost of employing credit control strategy.

ii. Cost of establishing debt collection unit in the company. This will cover staff salaries, accommodation and other related expenses. The banking industry is a typical illustration of this cost head. Because of the large credit portfolio in many banks, they have a need to establish debt collection departments so that staff can go after the debtors.

iii. Cost of employing external professional debt collectors. Again this is the case in many banks and other businesses today.

iv. Insurance cost for providing insurance against the risk of bad debts.

v. Cost of factoring the debts when they become too large and intractable.

vi. Charging provisions for bad debt against profit.

vii. Opportunity cost of funds tied up in credit sales

viii. Invoice discounting costs (similar to debt factoring)

All these factors have the tendency to reduce the company's profits, therefore the company has to be careful not to be too liberal in granting credits.

Cost to credit user

The credit user has to contend with the following costs: a) He pays the interest on the loan or overdraft if he takes the credit from a financial Institution (cost of funds) b) He is constantly under the pressure to pay from the creditor (supplier) c) He may be regarded as an unworthy credit user if his record of payment is poor.

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Determinants of credit level

a) Industry **Norms**: In the banking industry for example, the credit user must meet certain criteria known as canons of lending. They are Character, Contribution, Connection, Collateral Security, and Experience on the project in view, Profitability of the project and purpose of Credit request. A credit user who is unable to adequately meet these criteria is not likely to have credit.

b) **Level of Business Activities:** Virtually in all industries, a credit user whose business activities are low is not likely to attract trade credit from suppliers. Furthermore, if there is general sluggishness in business activities within the economy (low sales) the level of trade credit requests will fall, as there may be little sales if goods are collected. Level of production from source may have fallen also.

c) **Seasonal factors:** At festive seasons sales are usually on high beat e.g. at Christmas season. The producing/supplier companies as well as the credit user are willing to take advantage of the season to achieve high turnover. So trade credit level is most likely to be high at such season.

d) **Competition:** If the company's product is accepted in the market and it sells fast, there will be demand for it and competition will be high. In that situation credit sales will be minimal. If, on the other hand the product is not competitive in the market, the level of credit sales will be high in order to attract clientele.

Credit Policy

This refers to those decisions and actions of the Company, which influence the amount, and terms of trade credit granted to customers. A company may establish trade credit policies, which range between lenient and stringent. Good credit policies are those, which ensure optimum profitability and not maximum profit. The optimum level is attained when the company is able to match risk of bad debts against the urge for high profits. The following are some of the credit policies, which businesses have used over the years, to advantage:

a. Credit Period and Discount Allowed 2% Net 30; 3% Net 30

In this policy, customer is allowed 2% discount if he pays up his credit within 30 days. However, if he fails to pay within 30 days he pays 2% interest on the amount of credit involved in the trade credit. The discount rate and number of days can be varied. The essence of this policy is to accelerate payment.

b. Take Long, Give Short Credit

Essentially this policy manipulates credit terms to the company's advantage. Suppose the company (Manufacturer) takes credit for raw materials for 60 days it seeks to give credit to its debtors for 30 or 40 days, thus taking advantage of 30 to 20 days net credit.

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Assessing the credit suitability

The credit worthiness of the would-be credit user must be assessed. So collect data in respect of the debtor to see the working capital position of its or his accounts. In this regard, credit Bureaus can assist in accessing relevant information about the would-be credit customers. Many of the Bureaus now operate in Nigeria. In the exercise of assessment of credit suitability, bank references and enquiries will assist to obtain the relevant facts for appropriate decisions.

Intuitive Judgment

This is the ability to take intuitive decision on a request for trade credit on the spur of the moment. This is possible only after considerable experience in the line of business for which credit is required. The best method to adopt is to investigate the applicant thoroughly before taking decision.

Credit Insurance

As part of usual business risks, about 10% of sales go into bad debts. If a major credit customer fails to pay, much loss may be incurred. It is necessary therefore, to insure the company's trade credits to avoid colossal loss.

Credit Investigation

After credit information has been obtained from bank enquiry or credit Bureau, the Company should have an idea about further areas to investigate such as:

- Type of customers, new or old in the business
- Customer's business line and trade background
- Size of customer's orders and expected future volumes of business with the company.
- What are the applicant's Credit policies and practices?

Financial statements of the applicant for the previous 3 to 5 years should be scrutinized to assess its credit worthiness. It is also necessary to maintain an up to date credit file of the customers. All these will assist the creditor to follow up on the trading activities of the client, and know when to break from doing business with him if necessary.

Credit Analysis

This is the process of scrutinizing the value and character of the applicant's assets. Are their values stable and liquid? (Can they be sold for money quickly without loss of value?) The applicant with positive overall analyzed position is more likely to have credit after all

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investigations and analysis have been carried out than the applicant with scanty information and other weak areas in the course of the investigation and analysis.

Collection process for ageing credit

Credit management does not end in deciding which applicants should be granted credits after the analysis. From time to time the debtors' accounts are scrutinized with a view to identifying ageing or problem accounts. As soon as they are identified collection process should be commenced. Various methods are usually engaged in debt collection. Some of the effective ones are:

i. The debt collection department pays regular visit to debtors to collect and remind them of their obligations to the Creditor Company
ii. Recalcitrant debtors are reminded in writing after visits have failed to yield good results. Such letters should contain mild warning of legal action
iii. External Debt Collectors may be engaged
iv. Debt factors may be engaged
v. Invoice Discounting may be employed
vi. Litigation at court may be employed as a last resort.

LOAN RECOVERY STRATEGIES: APPLICABLE TO BANKS

1. **Follow up on slow accounts at the branch**

It is not enough to recognize the slow and weak accounts; there is need for the branch to reach out to its weak account customers on constant basis by personal visits and letter writing. Each branch is to develop Slow Accounts or Debt Recovery Units for this purpose and the usual excuse of having too much work to do and little time for pursuing slow or weak account owners is no longer tenable. Both the Branch Manager and his Credit Officers must schedule their time usage to allow for follow up of slow accounts.

2. **Establishment of debt recovery units**

Many banks now have Debt Recovery Units or Departments, depending on the size of the bank and the magnitude of the debt portfolio. This is as a result of the large proportion of classified accounts, particularly after the introduction of the prudential guidelines. Staff of the Debt Recovery Units has a duty to go after debtor customers regularly. These visits should be complemented with letters of demand, copies of which should be filed as evidence in case the matter becomes an issue for litigation in the future.

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3. **Realization of security**

When a facility becomes difficult to collect the hank should resort to realization of security provided adequate and appropriate security was charged and perfected at the onset. Legal mortgage on landed property; assignment of shares; assignment of insurance policy, and calling the guarantee are easy to realize, though some difficult customers have gone to court to prevent realization of their properties through injunctions though such properties have been properly perfected. This new trend has further made the lending banker's work more difficult than ever before. For debts that are not secured the banker sues for payment of debt, but if the customer has no assets to attach, the lending banker may only become a judgment creditor without a means of repayment.

4. **Litigation**

This step is taken as a last resort when all others fail, end it is usually preceded by the dispatch of a solicitor's letter of demand. However, care must be taken to ensure that the bank does not issue empty threats, because once the debtor knows that the letter of demand is mere threat, the debtor does not take the bank seriously. Once a decision is taken to take legal action, it must be followed to it's logical conclusion, in order to ensure full recovery or a reasonable proportion of the debt plus legal costs.

5. **Debt recovery agents**

In recent times, banks have devised other methods to enhance the recovery of their problem accounts. Employment of debt collectors or debt recovery agents is one of such strategies. These agents employ all sorts of methods in order to put pressure on the debtors to make them pay. Since the remuneration to the agents is the function of the amount of debts recovered, they do all sorts of things to embarrass the debtors: and actually many debtors try to avoid such embarrassments and so they pay. The agent charges between 10% to 20% of sums recovered as their remuneration.

6. **Assistance from the NDIC for debt recovery**

The Nigerian Deposit Insurance Corporation (NDIC) assisted many banks to collect debts between the period of 1996 and 1998, using the instrument of the Failed Banks Tribunal. The process entails that a list of difficult loans and advances accounts were forwarded to the NDIC which in turn distributed the accounts on the list to several lawyers/solicitors who 'would in turn pursue the debtors for repayment using the name and influence of NDIC. The lawyers reported progress to the banks from time to time. In extreme cases the NDIC lawyers referred the cases to the Failed Banks Tribunal for recovery and prosecution. The Tribunal was disbanded in May 1999 and it's duties passed to the Federal High Court Of Nigeria. However many banks

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benefited from the activities of the Tribunal when in place as helped the banks to recover sizeable amounts of debt which otherwise might not have been recovered.

PROCESS OF CREDIT MANAGEMENT

Step 1 Establish Credit Policy

- To enhance Market
- To improve liquidity
- To improve profitability

Step 2 Credit Control

- Establish credit worthiness of customers
- Update debtors accounts regularly
- Analyze the accounts positions monthly
- Determine weak and ageing accounts
- Review performance of ageing accounts
- Observe Credit limits as established

Step 3 Collection of due credits

- Visits by staff of debt department
- Employment of Eternal Collectors
- Factoring of debts/discounting
- Litigation

CONCLUSION AND RECOMMENDATIONS

Credit management has become an important aspect of modern business practice. Both Creditor and Debtor companies require in depth knowledge of its processes in order to enhance their businesses. The coming on board of Credit Bureau into the Nigerian business arena is a good thing to happen. Credit management cuts across all businesses as all businesses give or take credit in one way or the other. Therefore all businesses should incorporate credit management into their operations either as separate units or part of their finance, or accounting departments. The evaluation of credit rating continues to be an imprecise process. Over time, this approach needs to be standardized across institutions and across borrowers. In addition, its rating procedures need to be made compatible with rating systems elsewhere in the capital market. The issue of optimal credit portfolio structure warrants further study. In short, analysis is needed to evaluate the diversification gains associated with careful portfolio design. At this time, banks appear to be too concentrated in idiosyncratic areas, and not sufficiently managing their credit concentrations by either industrial or geographic areas. Credit losses, currently vaguely

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related to credit rating, need to be closely tracked. As in the bond market, credit pricing, credit rating and expected loss ought to be demonstrably closer. However, the industry currently does not have a sufficiently broad data base on which to perform the migration analysis that has been studied in the bond market.

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