

BAD TARGETS, BAD LOANS& BAD BEHAVIORS: AN ENQUIRY OF MICRO CREDIT LOAN OFFICERS IN SRI LANKA

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Abstract

As a quantitative study complemented by explanatory research design this study intended to identify the impact of the target pressure on unethical behavior of micro credit loan officers in Sri Lanka by selecting 50 micro credit loan officers of different finance companies in Anuradhapura district by using simple random method employing a self-designed questionnaire. Data was analyzed by using Descriptive statistics, ANOVA, correlation and regression analysis with the help of SPSS 21. As per the findings, there is a positive significant relationship between target pressure and the Unethical behavior of Micro Credit Loan Officers that may tend to engage in unethical behaviors in order to cover high targets. Thus, policy implementations should directed at setting realistic, practical and achievable targets in order to promote the ethical behavior among the Micro Credit Loan Officers which may grant benefits to customers, employees, company and the society as a whole. Moreover, Micro Finance Institutions can focus several areas to avoid or reduce this unethical pressure on loan officers on meeting targets by implementing effective human resource policies, supportive and flexible management and culture, proper training on stress management and a sophisticated monitoring and feedback mechanism.

Keywords: Micro Finance Institutions, Micro Credit, Micro Credit Loan Officers, Unethical Behavior, Target Pressure

INTRODUCTION

A calamity in contemporary ages has been noted in microfinance industry mostly grounded on the immoral practices applied by the organizations (Constantinou and Ashta, 2011; Dixon et al., 2007). This crises can be clearly evident by the situations especially arised in Latin America and

Bolivia in 1999–2001 in the microfinance industry. Constantinou and Ashta (2011) found that the existing competition among microfinance players and consumer lenders which lead to over-indebtedness of clients which is recently an exaggerated catastrophe is recorded in India. Within the context of the microfinance institutions micro credit loan officer play an important role by acting as an intermediary between Microfinance institutions and clients as the front line staff who spend times with clients, their direct communication allows them to see, hear or even experience the need of the clients (Leatherman et al, 2013). Loan officers are mainly involving major roles as screening potential customers, screening the loan applications, continuous monitoring and follow up of the loans, producing required report and selection of clients who will finally be financed (Holtmann and Grammling, 2005; Labie et al., 2009; Agier and Szafarz, 2011). Thus, the performance of microfinance highly depends on the success and failures of loan officers. If they fail microfinance also fails (Dixon et al., 2007). In the current context one of the main pressure faced by micro credit loan officers are meeting deadlines and targets that micro credit loan officers face to meet up deadline of loan disbursement, loan recovery, admitting new clients and overdue collection etc (Sarker, 2013).. Ultimately, these high target pressure on micro credit loan officers create unproductive, dissatisfied, less confidence and unethically behaving workforce. The dilemma is still not answered whether the targets cause to increase the unethical behavior of Micro credit loan officers. Though there are number of studies in the literature encountering different aspects of microcredit researchers have not yet taken into consideration the ethical issues emerged within the context of micro credit loan officers when they are interacting with their clients by meeting tough targets. However, there are many uncovered questions to answer regarding the ethical conduct of micro credit loan officers along with this target pressure: Does targets cause micro credit loan officers act unethically when dealing with their clients? And if so, what are the unethical behaviors of micro credit loan officers engaged in? Thus, this study intended to identify the impact of the target pressure on unethical behavior of micro credit loan officers in Sri Lankan milieu by questioning their dealings with their clients.

METHODOLOGY

As a quantitative study complemented by explanatory research design, the study collected data from 50 micro credit loan officers of different finance companies in Anuradhapura district by using simple random method employing a self-designed questionnaire. The questionnaire consisted with two parts and the first part was devoted to collect the demographic information of respondents while the second part was devoted to assess the target pressure and the unethical behavior of micro credit loan officers by employing five point Likert scale (5 = strongly disagree, 1 = strongly agree). Data analysis was performed by using Descriptive statistics, ANOVA,

correlation and regression analysis by using Statistical Package for Social Sciences (SPSS) 21.0 version.

RESULTS & DISCUSSION

Profile of Micro Credit Loan Officers

Analysis of the data collected indicated that 86% of the respondents were male and 14% of the respondents were female. Majority (56%) of the micro credit loan officers were belong to the age group between 21 years to 30 years. Moreover, majority of the micro credit loan officers have experience between 2 years to 5 years.

Table 1: Profile of Micro Credit Loan Officers

Gender	Male	86.0%
	Female	14.0%
Age	Below 20 Years	24.0%
	21 Years - 30 Years	56.0%
	31 Years - 40 Years	16.0%
	Above 41 Years	4.0%
Experience	Below 1 year	24.0%
	2 Years – 5 Years	50.0%
	6 Years - 10 Years	22.0%
	More than 10	4.0%

Regression Analysis

According to the regression result presented by Table 2, unethical behavior of micro credit loan officers is explained 48% variation of Target pressure. Moreover, the analysis reveals that target pressure (Beta = .694, $p < .05$) has a positive and significant effect on unethical behavior that may tend to increase the unethical behavior with high targets.

Table 2: Regression Analysis

R	R Square	Adjusted R Square			
.694 ^a	.482	.471			
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-4.399	1.016		-4.331	.000
Target Pressure	1.654	.247	.694	6.685	.000

a. Dependent Variable: Unethical Behavior

Attitudes on Target Pressure

The findings of the attitudes Micro Credit Loan Officers regarding the Target Pressure are presented in Table 3. According to the findings, 88% of Loan officers perceive that the targets placed upon them are high which is impossible to achieve and create an unnecessary burden to them. 72% of Loan officers perceive that high targets cause to create credit trap which may tend to increase the arrears rate of the customers. 84% of Loan officers tend to perceive that high targets cause to increase their stress level that may create work family conflicts and imbalances. Moreover, more than half of the Loan officers (64%) perceive that the targets are unrealistic and impractical to achieve and 84% of Loan officers tend to perceive that high targets cause to reduce the productivity and the performance level of the employees. Also, 60% of Loan officers tend to perceive that targets cause corruption and fraudulence where majority of the Loan officers (86%) perceive that high targets cause to engage in unethical practices backed by the urgency of finding more loans to cover their targets.

Table 3: Attitudes on Target Pressure

Target Pressure	No of	
	Respondents	%
Targets are very high	44	88%
Targets cause to create credit trap	36	72%
Target create stress	42	84%
Targets are unrealistic	32	64%
Targets cause less productivity	34	68%
Targets cause corruption and fraudulence	30	60%
Targets cause to unethical behaviours	43	86%

Unethical Acts of Micro Credit Loan Officers

According to the data analysis the most common types of unethical practices engaged by Micro Credit Loan Officers were identified in the Table 4. As per the data, 82% of the Micro Credit Loan Officers Hide important information regarding Loans such as interest rates from the customers. According to their view as the interest rates for the loans are very high, if they reveal correct information the customers would not take the loans. Moreover, majority of the Loan Officers (92%) over promoting the loans and 84% of the loan officers seduce customers to take more loans which may create unnecessary burden to the customers. Most serious issue is that more than half (56%) of the loan officers provide loans without doing a proper investigation regarding customers which tend to increase the arrears rate of the loans. Moreover, 66% of loan

officers misbehave with customers for repayments, 86% of loan officers create panic to customers, 60% of loan officers select bad clients to provide loan and 58% of loan officers ignore the procedural bindings to screen clients.

Table 4: Attitudes on Target Pressure

Unethical Acts	No of	
	Respondents	%
Hiding important information regarding Loans	41	82%
Not Providing Correct information	43	86%
Over promoting Loans	46	92%
Seducing customers to take more Loans	42	84%
Providing loans without doing proper investigation regarding customers	28	56%
Misbehave with customers for repayments	33	66%
Create panic to customers	43	86%
Select bad clients to provide loan	30	60%
Ignore the procedural bindings to screen clients	29	58%

CONCLUSION & RECOMMENDATIONS

The study mainly intended to discover the impact of target pressure on unethical behavior of Micro Credit Loan Officers in Anuradhapura district. According to the findings there is a positive significant relationship between target pressure and the Unethical behavior of Micro Credit Loan Officers that may tend to engage in unethical behaviors in order to cover high targets. According to the findings target pressure affects the Micro Credit Loan Officers behave in unethical manner. Thus, policy implementations should directed at setting realistic, practical and achievable targets in order to promote the ethical behavior among the Micro Credit Loan Officers which may grant benefits to customers, employees, company and the society as a whole. Moreover, Micro Finance Institutions can focus several areas to avoid or reduce this unethical pressure on loan officers on meeting targets by implementing effective human resource policies, supportive and flexible management and culture, proper training on stress management and a sophisticated monitoring and feedback mechanism. As the main limitations of the study sample and space limitation can be highlighted. As the study only limited to 50 micro credit loan officers in Anuradhapura District in Sri Lanka the future studies can focus more on taking a higher sample and other countries that micro credit exists in the world as well.

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