Reorganising the credit function

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When the economy booms, business organisations tend to be carried away by the positive results. They manage their resources less carefully and slow down - if not stop - when it comes to improving their systems and procedures on an ongoing process. The day-to-day busy operations deter them from seeking to be creative, innovative and sustain customer loyalty.

However, during a recession, when businesses are faced by less positive results due to lack in demand for their products and services, they panic. They try to implement half baked strategies, which I would rather refer to as short-term tactics, in order to find an urgent solution to the disturbing situation.

Rather than relaxing during good times and agitating during bad times, business directors and CEOs should encourage their managers to look for organisational improvement as an ongoing process, irrespective of the economic and financial situation in the market. Hiring people during booming periods and firing them when the economy is less favourable to minimise the operational cost may be a sign of overtrading and of a lack of proper business sustainability.

Business development and growth should be sustained by continuously managing the organisational capabilities to which the business has access to. Organisational capabilities can be defined as the Assets and Competencies of a business. Competitive advantage and customer loyalty can only be gained and sustained in the longer term by establishing and deploying the available assets and competencies to meet the market needs, demands and expectations.

This also applies to the credit department, the function that approves credit sales orders, manages the accounts receivables, is in direct contact with the customers throughout the trade transaction, and ensures sound cash flow which is the lifeblood of any business.

Applying Hooley et al., 1998 business framework, will help to analyse, establish and deploy the organisational capabilities in an effective and efficient manner for the credit function.

Organisational Assets

Organisational assets refer to all the tangible and intangible assets that the credit department has at its disposal and consist of both financial and non-financial assets.

Financial Assets - These assets take into account the cash flow (working Capital) of the business organisation. The investment made by the business to be able to extend credit to customers. However, a business organisation should establish the total amount of credit that it can extend to its customers. If it extends credit more than it can financially take, the credit worthiness of the business may be at stake, as it will risk paying its suppliers late due to lack of adequate cash flow.

Physical Assets - Maximisation of physical resources is a key factor in order to keep the operational cost, relating to the managing of credit, low. These assets include the property/office from where the credit practitioners operate and the facilities and tools employed in their day-to-day running of the credit function.

Operational Assets - Such assets include the credit technological systems, credit management processes and procedures, which should be managed and continuously improved.

People Assets - One of the most important assets within the credit function are the employees. They are the ones who are in direct contact with the customers and who perform the job. Employees should be encouraged and mentored to develop their skills and abilities. They should be motivated to extend credit, whilst bearing in their minds the business opportunities for gaining and sustaining competitive advantage in the market, rather than hindering sales orders. Nevertheless, due diligence prior to granting credit to a customer is always advisable in order to ensure profitable credit sales.

Credit Management Systems Assets - Another critical asset for an efficient credit department is surely the credit information systems and databases used to analyse the risk associated with credit and to manage and monitor the existing customers in order to minimise the risk associated with credit and to secure sound cash flow management. Appropriate software and integrated systems to mange accounts receivables is another key aspect to ensure efficient customer service.

Customer-based Assets - This refers to the strength, market share, and the uniqueness of the products and services provided by the business organisation to the market. The more market share an organisation has, the more power it enjoys and therefore, the more negotiating potential it will have when granting credit to its customers. However, the credit practitioners should always strive to sustain their market share by understanding customers' requests and trying to meet their expectations.

Distribution-based Assets - Coordinated approach between the sales, credit and distribution business functions is of key importance to gain and sustain competitive advantage. Business organisations that lack synergy between these three departments will find it difficult to compete as customers choose the most efficient suppliers.

Cost structure Assets - By applying effective credit management policies and deploying innovative systems, the credit function would be able to lower its cost through higher capacity utilisation and better economies of scale. This would be reflected in the pricing strategy which would in turn help to gain and sustain customer loyalty.

Innovation Assets - The internal culture within the credit function should encourage innovation and minimise resistance to changes in the credit processes due to such innovation. This would help to continuously improve customer service by developing creative credit policies and procedures that would meet and exceed customers' expectations when granting /extending credit to customers and also when collecting the dues. In today's business environment, one has to compete not only to make a sale but also to collect money from the customer. Differentiating the procedures adopted in the managing of accounts receivable and in the collection process would help to improve cash flow.

Process skills Assets - Employees' flexibility and good internal communication would help to improve lead times when the sales people log requests for credit to be approved by the credit team.

Alliance-based - Agreements with third parties such as invoice financing and factoring agencies should be customer-friendly and the scope of outsourcing should be communicated well to the customers by the supplier.

Organisational Competencies

The organisational competencies are the skills and abilities available to deploy and manage the organisational assets within the credit department. Organisational competencies should be present at the three decision-making levels and within the three structural levels.

Strategic level - These are the skills and abilities of the management team required to develop, implement and manage the strategic vision relating to the credit function. It also refers to the management ability to communicate with the credit team members and other employees within the organisation in order to motivate them supporting the continuous improvement of the credit processes.

Functional level - These competencies relate to the management of the activities carried out within the credit function. Credit management activities should include the approval of credit requests; the administrative activities relating to the A/R Management; the monitoring of accounts; and the collection processes.

Operational level - These are the skills and abilities required for the day-to-day running of the credit departments. This entails the improvement of the efficiency relating to the processes and procedures deployed to manage and control the credit customer portfolio.

Individual level - The credit practitioners, whether at Strategic, functional or operational level, should posses the right skills and abilities to execute the tasks in an effective and efficient manner. They should be trained and motivated to be accountable and responsible towards achieving the goals and objectives of the credit department and that of the business organisation as a whole.

Team level - If the credit practitioners work as one team, efficiency would increase. If the credit team would in turn work as a team with other departments, especially with the sales and the distribution teams, the whole organisation would benefit from sustaining long-term customer relationship since internal conflicts will diminish. Internal marketing would help to achieve internal synergy between the different business functions.

Corporate level - The credit department does not work in isolation from the other functions within the business. The organisation should possess internal competencies that would coordinate and control all the activities of the different departments to satisfy the needs of the customers. These skills and abilities should play an important role in order to achieve customer loyalty in order to ensure long-term profit and business sustainability.

Credit Management strategists should continuously develop the credit practices, procedures and systems and should always seek innovative internal policies and methodologies that can help the business organisation to build and maintain long-term customer relationship, which is much needed for future sound cash flow and sustainable profit. Recent case studies, both from the local and the foreign markets prove that cash flow is the lifeblood of the business. Large international organisations, that were profitable on paper, were declared bankrupt as they lacked adequate cash flow. The secret lies in the need to continuous development. More funds should be allocated to research and development within businesses and one of the best investments an organisation can make is in the training of its workforce.

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