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A Critical Assessment of Credit Management in the Nigerian Banking Sector

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Abstract
The extension of credits to customers could enhance the profitability of Banks. The credits extended may also be fatal where they are not properly managed. Obviating this avoidable calamity is now imperative. The goal of enhancing the health of credits now require good thinking beyond were routine. An understanding of the business of customers should now be the business of banks as their value chain is embedded in customers' value chain. In this study, the core resources and core competences required for securing the health of credits with a view to attaining net competitive advantage by banks attracted attention.
Keywords: Banks, Loans and advances, Management of Credits, Provisions against doubtful debt, Competitive Strength, Net competitive advantage and Net competitive disadvantage.

1.0 Introduction

Through their function of intermediation, Banks express and maintain their institutional identities. The credit extended could enhance or constrain the stability and corporate existence of banks. The task of sustaining the health of credits is therefore imperative. In securing the health of credits, homogeneity is yet to be attained by banks. The failure to extend credit management beyond routine level is largely responsible for the development. This study will therefore identify the core resources and core competences that are presently not discernable and exemplify their usefulness in credit management in the Nigerian banking sector. This enquiry is situated within the context of two banks in Nigeria.

2.0 The Purpose of Study:

i. To establish the level of Union Bank and Zenith Bank Advances, and Provisions against doubtful debt.
ii. An Evaluation of Union Bank Net Competitive Advantage or Disadvantage in Credit Management
iii. To establish if Union Bank is at a Net competitive advantage or disadvantage against Zenith Bank in Credit Management.

3.0 An Overview of Loans and Advances of Union Bank and Zenith Bank

TABLE 1: UNION BANK & ZENITH BANK LOANS AND ADVANCES

UNION BANK OF NIGERIA PLC.					ZENITH BANK OF NIGERIA PLC.			
	2006 ₦'000	**%**	**2005 ₦'000**	**%**	**2006 ₦'000**	**%**	**2005 ₦'000**	**%**
O/D	103,260,102	65.98	68,650,615	74.96	93,681,273	45.96	40,911,659	39.76
Loans	40,148,821	25.61	22,931,834	25.04	25,446,800	12.47	18,020,340	4.36
Others	13,358,077	8.52	-	-	12,603,829	6.18	-	-
Commercial Papers	-	-	-	-	72,325,277	35.44	57,594,308	45.88
Sub Total	156,767,000	100	91,582,449	100	204,057,179	100	125,531,307	100
Provision	(36,520,000)	23.30	(16,790,077)	18.33	(4,349,319)	2.13	(3,036,911)	2.42
Total	120,247,000		74,792,372	-	199,707,860		122,494,396	-

Source: Union Bank of Nigeria Plc & Zenith Bank Plc Financial Reports (2005-2006)

As shown on Table 1 when Zenith Bank Plc and Union Bank Loans/Advances are compared an inverse relationship is discernable. Although Zenith Bank Loans/Advances is higher than that of Union Bank, their provisions are lower. While Union Bank provision was N36.520billion and N16.790billion for the period ended June 2006 and 2005, Zenith total provision was N4.349billion and N3.037billion respectively.

4.0 The Evaluation of Union Bank of Nigeria PLC Loans and Advances with the Balanced Score Card

FIG 1.1: UNION BANK OF NIGERIA PLC. LOANS AND ADVANCES: BALANCED SCORE CARD STRATEGY MAP

				Provisions against Doubtful Debt	
Financial Perspective	LOANS AND ADVANCES MIX	2006 (%)	2005(%)	2006 ₦'000	2005 ₦'000
	Overdraft	65.87	74.96	36,520 billion	16,790 billion
	Loans	25.61	25.04	(23.30% of total debt) represents provisions. * Decline in profit level as a result of high provision.	(18.33% of total debt) represents provisions.
	Others	8.52	0.00		
		100	100		
Customer Perspective	Customer Service Capabilities * Average in service delivery. * The reputation of company is above average. * The quality of the Bank core products is fair.			Distribution Channels * Covers wide geographical areas. * The Bank is yet to fully explore the opportunities which abound in the entire demographic segments.	
Internal Perspective	Relationship Management/Business Development * The Bank is yet to realize that its value chain is embedded in the customers' value chain. *Customers are not educated on how to improve business performance.			Monitoring of Credits * The level of monitoring is low as a result of inadequate capacity building in credit management. * The bank adopt routine approach in Credit Management by focusing only on the examination of excess reports.	
Learning and Growth Perspective	Knowledge * Knowledge Management is low as a result of failure to adopt strategic Human Resources Management. The Management of the human side of enterprise is yet to extend beyond Technical human resources.	Innovation * Other Credit instruments are yet to be developed as a result of emphasis on only loans/overdraft *Appraisal of loans/Advances is yet to lay equal emphasis on business/financial risk.		Reward System * No longer a motivator in the Bank as it is below Industry Average	Strategic Technologies *ATM:(-) Inadequate *IT: (-) Inadequate *Telephone Banking: (-) inadequate *Internet Banking: (-) inadequate

Source: Adopted from Kaplan, R. S. & Norton, D. P. (2001) The Strategy Focused Organization, Harvard Business School Publishing Corporation, PP. 69-133.

5.0 Factors Responsible for the Increasing Level of Non-Performing Credits in Union Bank

The factors responsible for the present state of Non-Performing Loans/Advances was evaluated within the context of the following:

(i) Learning & Growth Perspective
(ii) Internal Perspective
(iii) Customer Perspective
(iv) Financial Perspective

(i) Learning & Growth

a) Knowledge Management (KM)

Knowledge Management is low as a result of failure to adopt – Strategic Human Resources Management. The Management of the human side of enterprise is yet to extend beyond Technical Human Resources Management level. The adoption of Strategic Human Resources will assist the organization to attract and retain talents that will assist in enhancing the performance of risk assets.

b) Reward System

This is no longer a motivator as it is below the industry average. An improvement in this area will assist in making employees show commitment in the performance of their functions with regard to credit monitoring

(ii) Internal Perspective

(a) Innovation

The prevailing credit instruments in the bank are loans and overdraft. Other credit instruments are yet to be developed as a result of the prevailing organizational culture that is high in uncertainty avoidance.

- Appraisal of Loans/Advances is yet to lay equal emphasis on Business/financial risk.
- An optimal mix in Loans/Advances is not attained.

(b) Relationship Management/Business Development

The bank is yet to realize that it's value chain is embedded in the customers value chain. Customers are not educated on how to improve business performance.

(c) Monitoring of Credit

The level of monitoring of credits is low as a result of inadequate capacity building.

The Bank adopt routine approach in credit monitoring by focusing only on the following:

- Completion/Examination of reports on credit position, range, Average, earnings (i.e. Adv. 21).
- Analysis of financials
- Rendition of excess reports
- Examination of overline reports.
- Completion of Advances Control Sheets
- Evaluation of customers business that gave birth to the financials receive scant attention.

(iii) Customer Service Capabilities

- The level of performance in this area is average.
- Opportunities which abound in the entire demographic segments with regard to new product development remain unexplored.

(iv) Financial Perspective

- Union Bank's Debt Portfolio is lower than that of its' rival (Zenith Bank).
- The provision for Doubtful debt of Union Bank is higher than that of Zenith.

6.0 Analysis of Competitive Strength of Banks

TABLE II: FURTHER RATING OF CREDIT PERFORMANCE:
SAMPLE OF A WEIGHTED COMPETITIVE STRENGTH ASSESSMENT

RATING SCALE: 1= VERY WEAK, 10=VERY STRONG

KEY SUCCESS FACTOR/ STRENGTH MEASURE	IMPORTANCE WEIGHT	UBN PLC		ZENITH PLC	
Quality/Product Performance	0.10	2	.20	9	.90
Reputation/Image	0.20	7	1.40	6	1.20
Technological Skills	0.15	5	.75	8	1.20
Network/Distribution Channels	0.10	7	.70	7	.70
New Product Innovation	0.15	6	.90	8	1.20
Relative Cost Position	0.10	4	.40	7	.70
Customer Service Capabilities/Core competencies	.20	4	.80	8	1.60
Total	1.00		5.15		7.50

The competitive strength assessments provide useful conclusions about a Company's competitive situation. The ratings show how a company compares against rivals, factor by factor or capability by capability, thus revealing where it is strongest and weakest, and against whom. Moreover, the overall competitive strength scores indicate how all the different factors add-up-whether the company is at a net competitive advantage or disadvantage against other competitions. As shown on Table II Union Bank is at a net competitive disadvantage against Zenith in Credit Management.

7.0 Summary of Major Findings/Implications

1) In the absence of theory, facts will remain silent. While appraisal of facilities should lay equal emphasis on financial and business risks, the system should be predicated on an appropriate theory. This approach will enable banks raise the level of Credit Management from routine state to a strategic level.

2) Banks are yet to realize that their value chain is embedded in the customers' value chain. Towards this end, the health of customers business should always attract attention. In the post consolidation era, it is no longer sufficient for providers of funds to interpret only financial ratios. The knowledge of the business of customers should now be the business of their business. To achieve this goal, the roles of the Business Advisory Services should now be incorporated into Managers functions.

3) The loan policies of banks should be reviewed with a view to establishing an optimal mix between loans and overdraft. This will assist monitoring effort.

4) The Nigerian Business environment is highly dynamic. To enable Banks adapt to their external environment, the level of learning in the system should be improved upon. An organizational culture audit will enable Banks improve on their innovative capabilities. The prevailing high level of uncertainty avoidance and high power distance are forces working against innovation on the part of the employees. Previous effort at re-engineering by Banks which attempt to achieve flat organizations with a view to breaking communication barriers will not achieve the desired objective without a critical look at the present organizational culture that is anti-innovation(Prahalad and Hamel, 1990).

5) The lack of commitment on the part of the workforce is affecting Customer Service capabilities and core competencies. The implementation of a reward structure that is below industry average is responsible for this. The time for a review of this is now.

8.0 Conclusion

In this study, the credit management strategy of Union Bank was evaluated using the balanced score card and benchmarking models. An inverse relationship was found between Union Bank debt portfolio/provision and Zenith debt portfolio/Provision. While Union Bank total loans/Advances were lower than that of Zenith Bank, the provision of Union Bank was higher. The failure to monitor loans/Advances effectively was directly responsible for this. The inadequacies of the key success factors of quality/product performance, product innovation, Technological skills and customer service capabilities/core competencies were identified as factors responsible for the failure of Union Bank core process of monitoring. To enhance Union Bank's capacity in credit management, the views expressed under 4.0 (i) – (a-b), ii (a-c), (iii) & (iv) should attract attention. This will assist in reducing the level of provisions with a view to enhancing profitability.

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