

3

Organizing the Credit Department

OVERVIEW

The properly organized credit department plays a critical role in managing accounts receivable portfolio risk to protect profits, prevent potential losses and help the company sell more products or services.

This chapter discusses the role of the credit department from an organizational point of view. Proper structuring of the credit department—from a one-person operation to a multi-tiered, multifunctional entity—ensures that the role of credit contributes to the overall success of any company regardless of size.



THINK ABOUT THIS

- Q. How do the operations of a business change the structure and function of the credit department and vice versa?
- Q. What is a credit manager’s role in setting credit policy, hiring and continuing the professional development of the credit department’s staff?



DISCIPLINARY CORE IDEAS

After reading this chapter, the reader should understand:

- ✓ Organizational options for the credit department.
- ✓ Centralization vs. decentralization.
- ✓ Responsibilities of management.
- ✓ Effective credit policies and procedures.
- ✓ How to build a strong credit team.

CHAPTER OUTLINE

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Organizing the Credit Department

The nature of a business and its size will determine the structure and staffing of the credit department. Unlike most other company operations, the credit department tends to remain fairly constant in size and scope of activities during periods of changing business conditions. This is due to increased support needed for full volume sales in good times and for increasing delinquencies when economic times are difficult. A credit department may face a greater number of collection problems in a depressed economy when inflation is rising and the money supply is tighter. During prosperous times, new account volumes create more upfront work for the credit department.

The organization of the department is particularly important; a measure of permanence and stability must be achieved that will ensure that the department functions under all conditions. Although the organization should not remain static, it is highly desirable to have experienced and capable employees available within the department. The credit manager should strive to achieve a balance of newly trained entry-level staff and experienced credit professionals. Alternatives exist to accommodate extra heavy workloads. Cross-training of personnel can lead to more flexibility. Accounting department personnel can be trained to perform routine tasks and called upon as necessary and temporary staff hired or tasks can be outsourced to companies specializing in credit-related functions such as cash application and dispute resolution.

Centralization vs. Decentralization

Although there may be variations among companies, the control and administration functions can usually be classified into two types of operations: *centralization* and *decentralization*. The question of whether to *centralize* or *decentralize* the credit function is faced by companies with geographically and culturally diverse operating units. It remains important as corporations continue to reengineer their business processes to leverage their technology. In a **centralized** structure, *the credit function is controlled and administered from a principal or central location*. In a **decentralized** structure, *the credit function may report to a principal location (headquarters) with credit personnel located at remote offices*.

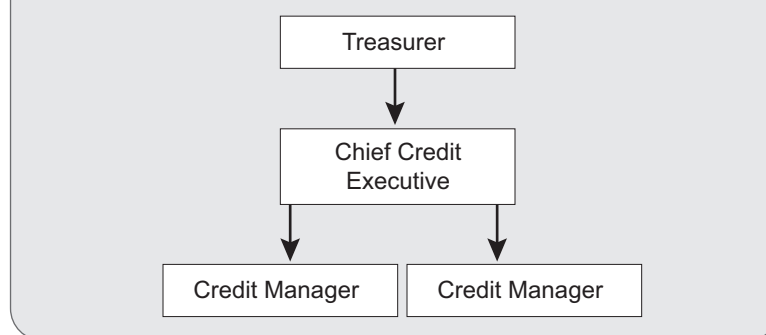
Centralized—Credit Controlled and Administered at a Headquarters Office

A centralized department services credit operations that are based entirely at a company's main headquarters. It is the responsibility of the credit manager and staff to approve credit terms on most orders. Credit professionals may find themselves questioned by sales staff or even upper management if they decline an application to grant terms on an important or significant order. An increasing number of credit departments are using automated options that approve credit lines for perceived low-risk customers or low-amount credit requests as long as they meet certain pre-established criteria. This, in theory, allows credit managers and staff to focus on the most important customers and situations.

A centralized credit system may be modified in certain respects. In some companies, for example, most of the credit functions are carried on at headquarters, but collections offices are located in the field to work directly with customers, secure payments and make adjustments.

Figure 3-1 illustrates a credit department that is administered and controlled from a headquarters office. The senior ranking credit professional (e.g., director of credit, credit manager, etc.) is charged with ensuring department responsibilities are met and policies followed. That person is responsible for reporting to upper management staff, such as the treasurer or chief financial officer, as it is important for the credit function to maintain close and open communication with those responsible for the greater financial functions of a company.

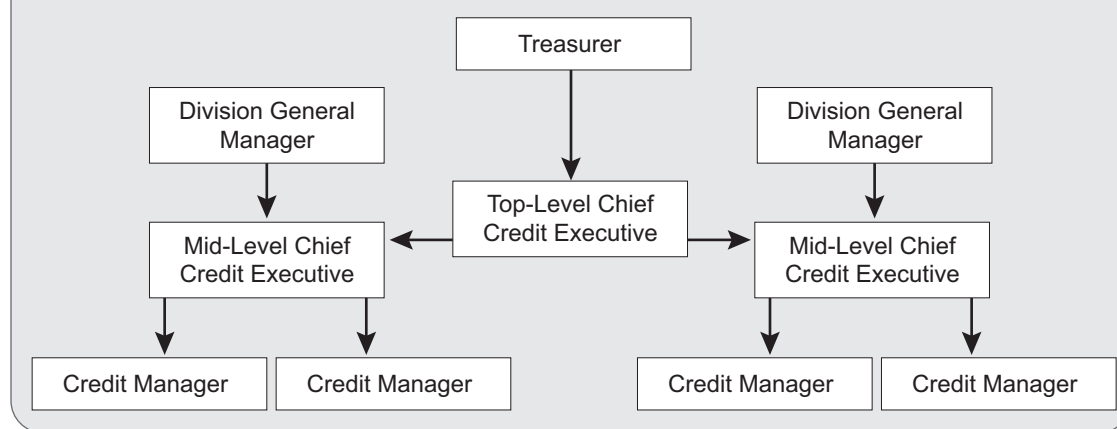
Figure 3-1 Centralized Offices with Credit Controlled and Administered from a Headquarters Office



Decentralized—Credit Controlled at Headquarters but Administered from Decentralized Location(s)

A mid-management level credit manager reports functionally to an executive-level credit manager at headquarters and also reports to the division head (the principle is the same for subsidiary or branch operations). *While authority in credit and collection is provided by the executive-level credit manager, in all other respects middle management establishes the procedures to which the credit professional must conform.* Figure 3-2 illustrates a decentralized operation under which the middle-level credit manager has a dual reporting role requiring close cooperation between the top-level credit executive and the division general manager.

Figure 3-2 Decentralized Offices with Credit Controlled from a Headquarters Office



Authority of the Mid-Level Credit Manager

The mid-level credit manager is normally empowered by the division general manager to take care of personnel problems, operating expenses and all other nonfunctional matters within the scope of local policy.

The mid-level credit manager has authority to give final credit approval on all orders not exceeding a stipulated amount. Orders in larger amounts are referred to headquarters for processing and approval, usually with local recommendation. The mid-level credit manager may be authorized to give preliminary credit approval so the order can be processed.

Another method is to designate certain customers as “headquarters accounts” because of special circumstances. When this procedure is followed, the mid-level credit manager ordinarily has final approval authority for all other orders, and can recommend credit limits for accounts with sound financial resources whose orders normally exceed local authorization.

Authority Retained by the Top-Level Credit Executive

The top-level credit executive establishes credit policy for the divisions, considers approvals in cases that exceed the limits set for mid-level credit executives and is completely responsible for all headquarters accounts.

The top-level credit executive, in conjunction with the accounting and systems departments, also determines the procedures, techniques and practices to be followed by the divisions in their credit and collections operations.

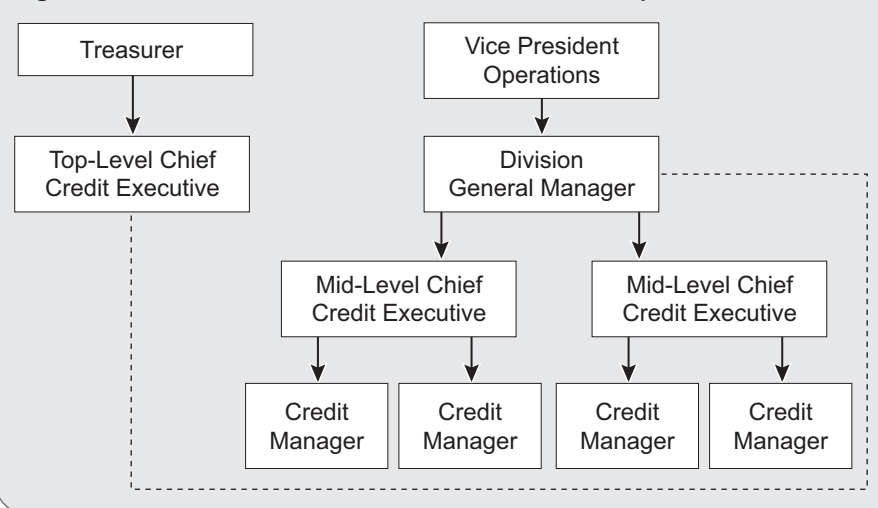
Training of credit personnel and the assignment of employees to the divisions, with the agreement of the division manager, are also primary responsibilities of the top-level credit executive.

Decentralized—Credit Controlled and Administered from Decentralized Location(s) with a Staff Office at Headquarters

In this type of organization, the top-level credit executive is responsible for collecting information and preparing reports for management, providing advice and counsel to the field credit executives, and participating in major problem-risk analysis. Figure 3-3 illustrates a decentralized operation with a staff office maintained at headquarters. This arrangement requires the top-level credit executives to be responsible for order approvals and collections and to control their own unit credit departments.

The top-level credit executive usually establishes the overall credit policies. Divisions coordinate their activities based on industry best practices and select the best alternative action in the light of prevailing conditions. Compliance with the overall policies is especially important, so telephone calls, video conferences or field trips are key to monitoring the activities of credit personnel in the field. In cases where control is completely decentralized, the mid-level credit manager reports only to the division general manager and has complete authority in all credit and collection matters without reference to headquarters. The division is required to carry out the general credit policies of the company, but the operation within those policies is the responsibility of the division. Consequently, the division credit executive is responsible to the division general manager both for the performance of the function and for the operation of the division.

Figure 3-3 Decentralized Offices with Staff at Headquarters Office



Comprehension Check

Describe how the credit function would operate if credit is controlled at a headquarters office but administered from decentralized locations.

Benefits of Centralization

- **Economies of Scale.** When separate divisions serve common customers, a centralized credit office can mean a reduction in operating costs and a more efficient income stream, along with enhanced customer service.
- **Consistency and Control.** Adherence to standardization of policies, procedures and protocols is more manageable in a centralized environment. This has the advantage of providing consistent credit decisions across all business units which minimizes risk of satellite departments having undue influence. When information about a common customer is centralized, the credit function has more risk control over bad debt exposure and perhaps increased leverage in collection efforts. Closer proximity tends to encourage communication between staff members and management. Likewise, updates to policies, procedures and protocols can be disseminated more quickly.



Comprehension Check

List and discuss the benefits of a **centralized** credit operation.

Benefits of Decentralization

- **Internal and External Relationships.** Close proximity to customers can enhance a credit professional's relationship with marginal customers and lead to developing a better rapport with customers having a sizable dollar exposure. Being on site with other business functions promotes a better understanding of business goals and fosters the exchange of information about market and customer needs. It also enhances communication among departments and reduces the number of interdepartmental conflicts.
- **Involvement in Setting Strategic Priorities.** Credit can integrate its objectives with those of sales and marketing into divisional goals. Also, decisions made at a local level can be implemented immediately without going through additional levels of review.



Comprehension Check

List and discuss the benefits of a **decentralized** credit operation.

Management Responsibilities

Every department needs a clear philosophy of management that will not only permit full development of individual responsibility and strength, but at the same time give cohesive direction of effort, maintain teamwork and harmonize the goals of the individual and the enterprise.

The functions of management may be divided into five main areas:

1. Planning.
2. Organizing.
3. Staffing.
4. Leadership.
5. Control.

Planning

Planning establishes common objectives so everyone is aware of the values the department hopes to achieve. Planning helps to determine how to perform assigned duties, implement control measures as work progresses and formulate standards against which to check results.

Organizing

There are certain essentials in developing an improved organizational structure. Major functions should be combined into the overall department structure. Every function and every position should be described accurately, briefly and clearly. This process facilitates continuity of workflow, harmonious relationships, easy communication across all organizational levels and equitable appraisal and remedial action.

An ideal department structure requires careful planning. Major problems standing between the ideal structure and the present structure should be identified; viewpoints, objectives, vested interests, trends and personnel analyzed; and the use of present staff, resources and facilities reviewed. A decision may then be reached on what improvements can and should be made immediately, and a schedule of subsequent changes prepared.

Staffing

The top-level credit executive must establish and maintain basic controls governing the selection, compensation and development of department employees.

To succeed, there are three steps to consider:

1. Establish the results expected of each position and the criteria to be used to measure them.
2. Determine what the person in each position has to do in order to produce desired results.
3. Ascertain what knowledge, skills and personal qualifications are needed to perform the activities. Appropriate skills and abilities can be identified at points needed and instructions clearly specified.

Managers are responsible for the selection, performance, training and development of their employees. Outside trainers or training specialists may help, but the final responsibility rests with the department head. Effective training requires department objectives and standards and accepted criteria for performance measurement. Manuals and instructions for uniform interpretation of established practices are essential.

Leadership

Leadership, motivation and follow-through by the department head are important to identify opportunities for improvement and to point out areas where interim results or trends should receive immediate attention. Appraisals of employee performance, made regularly or for special reasons, are needed to identify gaps between actual performance and desired results, to ascertain specific training needs and to develop effective ways of meeting those needs.

The credit manager must guide and oversee subordinates, delegate authority and assign duties. Subordinates must understand policy and procedures and the reason for actions, be able to coordinate their actions in the department and communicate effectively.

Control

The department head should regularly review all operations to ensure conformity with established goals and objectives. Responsibility should be established for observance of credit policy compliance, reviewing procedures and standards of performance, and recommending changes.



Comprehension Check

What are some of management's responsibilities?

Business Organization

Business owners often begin to think seriously about credit management when they find they have insufficient cash flow to fuel their growth. In most companies, accounts receivable is the largest asset of the company.

Credit Policy and Procedures

A **credit policy** is a guiding principle used to establish direction for the credit function in an organization in order to achieve the objectives of minimizing risk and maximizing profitability, while maintaining a competitive advantage in the marketplace. A **credit procedure** is a series of steps to be followed for recurring credit situations to accomplish the goals outlined in the company's strategic planning framework and internal audit framework. Together, credit policy and credit procedures are used to empower the people responsible for the credit process, by providing the direction and consistency they need for successful execution.

Develop a Credit Application

The credit application should include enough information about the new customer to allow the credit manager to assess risk. It should be used in conjunction with commercial credit information and reports from agencies like NACM, D&B, Experian and Equifax that conduct external credit information research. NACM Affiliates host specialized industry credit groups to help credit grantors discover payment habits and trends of specific customers. Businesses can also learn about payment history from checking other trade references. NACM members can benefit from electronic credit checking tools made available to them.

The credit application should also serve as a legally binding document to be relied upon for enforcement of certain terms and conditions established by company policy and procedures or by owner or management discretion in the absence of any other controlling document.

Keep Credit Records

It is important to maintain accurate records for easy access while preserving confidentiality. Because most information is archived electronically, appropriate identification and back-up procedures are also necessary. Always consult with legal counsel to ensure that pertinent original documents are stored and maintained before destroying or archiving.

Produce Accurate Invoices

Businesses tend to lose a lot of time in the collection process due to billing discrepancies, such as pricing errors, billing the wrong customer, sending invoices to the wrong address, quantity of items shipped/delivered and missing information (purchase order information, etc.). Prompt payment is more likely when businesses send timely, clear and accurate invoices and statements to their customers.

Deal with Past Due and Delinquent Accounts

Credit departments should use a variety of methods to contact past due accounts such as collection letters, phone calls, personal visits and electronic correspondence. With regard to these attempts to encourage customer payment, the credit department should be cautious not to sever the relationship with the customer. Alternatively, letting a customer know that the company reports its accounts receivable trade data to NACM can encourage a customer to make timely payment. Properly structured credit departments must be considered as supporting all company sales efforts.

The credit department's constant challenge is how to maintain policies and procedures that are not so rigid that potential sales are inhibited or customers are lost to competition because of strict adherence to said credit policies. The credit department must have an arsenal of tools devised to help make the sale while ensuring payment or recovery of the account receivable asset.

Measure Effectiveness and Performance

The following metrics are commonly used to measure credit effectiveness and performance:

- Bad debt as a percentage of sales.
- Days sales outstanding in receivables—current.

- Days sales outstanding in receivables—past due.
- Percent collected by aging period.
- Aging of accounts receivable in dollars and as a percentage of total accounts receivable.
- Accounts opened as a percentage of applications received.
- Accounts over 90 days past due.
- Accounts on credit hold as a percentage of total open accounts.



Comprehension Check

Give examples of various credit procedures.

Building the Credit Department Team

Understanding the specific duties and tasks to be performed is essential in hiring for and managing the credit department.

Job Description

A **job description** is a statement of the duties, responsibilities and authorities of the position. It helps define the amount and type of training required by qualified personnel for the various credit department tasks or functions. The description is also valuable when developing measures of performance. The components of the job description are the same whether for a staff of one or one hundred.

A **job specification** is a statement of the qualifications that an individual should have to fill a particular job, usually including educational requirements, experience requirements and special characteristics and abilities.

Components of a Job Description*

Job descriptions are an essential part of hiring and managing employees. These written summaries ensure applicants and employees understand their roles and what they need to do to be held accountable.

Job descriptions also:

- Help attract the right job candidates.
- Describe the areas of an employee's job or position.
- Serve as a basis for outlining performance expectations, job training, job evaluation and career advancement.
- Provide a reference point for compensation decisions and unfair hiring practices.

Overview

A job description should be practical, clear and accurate to effectively define the company's needs. Good job descriptions typically begin with a careful analysis of the important facts about a job such as:

- Individual tasks involved.
- The methods used to complete the tasks.
- The purpose and responsibilities of the job.
- The relationship of the job to other jobs.
- Qualifications needed for the job.

What to Avoid

Don't be inflexible with the job description. Jobs are subject to change for personal growth, organizational development or evolution of new technologies. A flexible job description encourages employees to grow within their position and contribute over time to the overall business.

What to Include

Job descriptions typically include:

- Job title.
- Job objective or overall purpose statement.
- Summary of the general nature and level of the job.
- Description of the broad function and scope of the position.
- List of duties or tasks performed critical to success.
- Key functional and relational responsibilities in order of significance.
- Description of the relationships and roles within the company, including supervisory positions, subordinating roles and other working relationships.

Additional items for job descriptions for recruiting situations:

- Job specifications, standards, and requirements.
- Job location where the work will be performed.
- Equipment to be used in the performance of the job.
- Collective bargaining agreements if the company's employees are members of a union.
- Salary range.

Proper Language in the Job Description

Keep each statement in the job description crisp and clear:

- Structure sentences in classic verb/object and explanatory phrases. Since the occupant of the job is the subject of the sentence, it may be eliminated. For example, a sentence pertaining to the description of a receptionist position could read: "Greets office visitors and personnel in a friendly and sincere manner."
- Always use the present tense of verbs.
- If necessary, use explanatory phrases telling why, how, where, or how often to add meaning and clarity (e.g., "Collects all employee time sheets on a bi-weekly basis for payroll purposes.").
- Omit any unnecessary articles such as "a," "an," "the," or other words for an easy-to-understand description.
- Use unbiased terminology. For example, use the he/she approach or construct sentences in such a way that gender pronouns are not required.
- Avoid using adverbs or adjectives that are subject to interpretation such as "frequently," "some," "complex," "occasional," and "several."

**From the U.S. Small Business Administration.*



Comprehension Check

What are the components of a job description?

Selection of Personnel

Special Characteristics and Abilities

An individual may not possess the full qualifications listed below; however, the higher the position level, the more likely the credit professional will be able to:

- Determine appropriate methods of observing, organizing, analyzing and reporting data.
- Meet new situations and changing conditions with initiative, adaptability and ingenuity.
- Identify needs, unsatisfactory conditions and the causes of such conditions; handle unpleasant situations with tact, diplomacy and emotional stability.

- Analyze complex problems constructively and follow up difficult situations with resourcefulness.
- Make informed decisions and be willing to take considered risks for profitable company growth and development of sales potential.
- Direct the work of employees effectively, exercising considerate interest and fairness in dealing with people and communicating effectively and convincingly through speaking and writing.
- Handle customer and internal relations diplomatically and decisively when required.
- Acquire and maintain the required job knowledge, conduct affairs with integrity and persevere in eliciting confidential information.



Comprehension Check

What are the special characteristics and abilities to look for when selecting personnel?

Training

Training is an investment that creates an informed, knowledgeable and supportive employee. This translates indirectly into more profit for the organization. For the employee who takes advantage of the educational opportunities, training transcends the current job experience and always remains with the person.

Credit department personnel need formalized training, not only to train new employees but also to increase the skills and talents of experienced staff members. Any significant change in company organization may also require an expansion of the present training program. Whenever credit employees face greater responsibilities, some provision must be made for the continuing education of existing staff and for training new personnel.

Management personnel must continue to pursue training opportunities in order to carry out their responsibilities. Areas of credit and finance are increasingly important, and credit professionals must keep themselves qualified to perform these expanding roles and functions.

Preparation for Credit Training

Credit training is an opportunity for management to communicate effective credit function procedures from their company's point of view. Training encourages and reinforces the employee/trainee who may be eligible for future advancement within the department or company. Top management candidates are generally selected from among those employees or applicants with a thorough and applicable understanding of the importance of the function of credit in a company. Training should be both specific to the needs of the company/business/employer and general enough to address the fundamentals of business credit principles.

Considerations in a Sound Training Program

The primary objective of any training program is to provide employees with the opportunity to progress to whatever level of responsibility they can achieve. This requires programs for developing one's ability to think and to analyze and formulate workable solutions to problems. Knowledge is enriched, confidence inspired, and the traits and skills of leadership developed to ensure the widest possible use of the available human resources for the company's benefit.

A well-designed training program should:

- Develop a higher level of performance by being more proficient on the job. This includes the ability to handle customer relations and develop more harmonious working relations with other departments.
- Provide a broad concept of the company's place in the industry and the department's relation to the whole.
- Provide knowledge of general business functions enabling the employee to move into other job duties and responsibilities to which they may eventually aspire.

On-the-Job Training

Some credit skills and functions, such as the gathering of credit information, are best learned on the job through actual experience. When developing a training program, it is necessary that instructional materials be connected to the day-to-day operations of the credit department. Each program should be developed to meet the particular needs of the department where it will be used.

The extent of supervision depends on the position level, the employee's past academic background and experience, the speed of training and the individual's overall progress. Supervision should always be available to provide direction, answer questions, discuss problems and evaluate the individual. Any periodic progress reports should be discussed with the trainee, along with specific recommendations for improvement. Trainees on a new job must first learn the current methods of doing their work. When these techniques have been mastered, they should be encouraged to seek improved ways.

In-House Training

Dedication to quality *in-house training*, also known as **onboarding**, is especially important when dealing with credit professionals because of the wide range of functions members of this staff perform and the reality that most new credit professionals have not studied trade credit.

A well-conceived training program must reflect critical information regarding each employee's functions and responsibilities to the department as well as that of the greater business and the impact on company culture. Training programs should be designed with the goals of inspiring a common desire between departments to coordinate efforts, eliminating conflicting procedures and fostering a willingness to exchange ideas freely.

To accomplish these goals, training programs could include periodic meetings, even for current staff members, to discuss problems and necessary improvements within the credit department and the greater company. They can help employees learn how to apply recommended solutions.

A training program is often most effective when instruction is ongoing, so that staff can be knowledgeable regarding accepted and evolving best practices. It should also be highly interactive, because encouraging increased participation ("having a voice") in such processes will often foster a greater level of interest, involvement, buy-in and commitment, especially among non-management staff.

Observation Tours

Tours of other departments can help credit department employees understand more fully the working relationships between their department and other divisions.

Observation tours are a useful supplement to any training, since they give the observer an opportunity to see, in operation, certain processes they may have only read or heard about. This is particularly true in a company with a wide range of product lines and many different industrial classifications of customers.

Job Rotation Program or Cross-Training

It is sometimes desirable to include some provision for rotating trainees from one job to another within the department, and even from one department to another. Such experience generates a broader credit perspective. The specific plan of rotation depends upon the size, complexity and organizational setup of the department.

Popular on-the-job training methods include understudy assignments, also known as job shadowing, and job rotation. New employees often learn their jobs by shadowing a seasoned veteran or by **vertical rotation**. *The understudy serves under an executive as an observer or assistant to become familiar with the functions and area of responsibility.* Alternatively, **job rotation** or **horizontal rotation** involves lateral transfers that enable employees to work at different jobs.

The following benefits are likely to be attained with little expense or disruption of normal office routines:

- The department's overall flexibility is greatly increased. It is better able to meet emergencies caused by illness, vacation schedules and other work interruptions.

- Employees' enthusiasm for their work is increased. In addition, the discipline of having to think out and describe their jobs often leads credit personnel to develop better work habits and a better understanding of where their work fits in with that of others.
- Replacement of lower supervisory personnel is made easier since several persons in the department know several jobs.



Comprehension Check

What are the goals of a well-designed training program?

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Name and describe some popular internal training methods.

Credit Library

Some companies have credit libraries containing books, articles, case histories, special reports and other pertinent reference materials. Employees are encouraged to become acquainted with and use them in their training. Online resources are also important elements for the credit department trainee.

Available to its members, the **National Association of Credit Management (NACM)** hosts an online Knowledge & Learning Center on its website at www.nacm.org. The Knowledge & Learning Center is a centralized resource of the vast amount of information NACM publishes providing members with the ability to comb through several different books and a decade of *Business Credit* magazines by keyword. Titles include:

- *The Manual of Credit and Commercial Laws*
- *Principles of Business Credit*
- *The Art and Science of Financial Risk Analysis*
- *The Construction Law Survival Manual*
- *Credit Beyond the Numbers*
- *Credit Management: Principles and Practices*
- *The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005*

All of the forms found in the *Manual of Credit and Commercial Laws* are available and ready to use.

Searching through all of these books is similar to a Google search: type in a keyword and links to articles or places in the book where the keyword is listed appear.

The Knowledge & Learning Center also contains information authored by NACM's Graduate School of Credit & Financial Management (GSCFM) participants, who created a best practices guide to credit and collections, drawing upon their work experience. The sections pull together the work of groups of students from more than a dozen industries over several years. Participants will add content and new topics over time. The material draws together some of the best established minds in the industry along with the rising, future stars of credit. Topics include:

- Components of a Sound Credit Policy.
- Counseling a Distressed Customer.
- Developing an International Credit Score for Businesses.
- Going International.
- Implementing ERP Systems.
- Onboarding Credit Personnel.

Where relevant, NACM has added supplemental materials such as recorded audio teleconferences or webinars—enhancing and expanding this virtual guidebook. A credit professional, especially a new one, should consider the section on sound credit policy as a desktop checklist and reference of the most important things to remember.

Employee Enhancement

After the training phase is completed and the employee settles into a normal credit assignment, efforts should be made to involve the employee in assignments of a special or non-routine nature.

As a part of their internal training program, the credit department can hold periodic meetings on subjects relative to the department's structure. Outside speakers who specialize in credit and collection, bankruptcy, legal aspects and other activities pertaining to credit can also be invited to address the group. Participation in an NACM Industry Credit Group is also key to learning about an industry, current events, trends and changes in the business environment. In addition, the credit manager can conduct periodic group meetings with supervisory personnel to ensure a constructive team effort for all credit staff.

In order to help broaden credit understanding and as an additional aid for career planning, an accounting and financial analysis training program can also be established. Subjects may include such topics as taxes, financial analysis, auditing, banking, corporate accounting, foreign exchange, the law as it relates to contracts, torts and property or other industry specific areas that relate to the company's particular line of business.

Continuing Education

A continuing education program usually follows a conventional pattern with courses designed to cover a given area of instruction in an orderly manner. The purpose of such a program is to offer credit employees educational opportunities not provided by their company and to enable those outside the field to train for a credit position. There are continuing education programs for credit personnel at every level of experience. Continuing education is primarily based on courses offered by local colleges, professional organizations such as NACM and other groups.

NACM Affiliates conduct educational activities that can provide desirable supplementary training. Open forums, which emphasize participants' interaction, or conferences and seminars focusing on core credit topics or current trends are especially beneficial.

NACM-National Education Department

The NACM-National Education Department provides educational resources that promote life-long learning for those in the credit profession. Formerly known as the National Institute of Credit and founded in 1918, the National Education Department encourages NACM affiliates to offer a series of college-level courses designed to enhance a credit and financial professional's knowledge and understanding of business credit, financial and legal skills in a hands-on learning environment.

Through its Professional Certification Program established in 1974, NACM's Education Department establishes the standards and regulates the designation awards for the Certified Credit and Risk Analyst (**CCRA**), Credit Business Associate (**CBA**), Credit Business Fellow (**CBF**) and Certified Credit Executive (**CCE**).

The education-related needs of credit personnel are met through a variety of NACM resources. Live classroom programs are held at NACM's Credit Congress, as well as the NACM-National office. In 2009, NACM launched its Credit Learning Center (CLC), providing the opportunity to access credit education 24/7. Carefully selected, expert instructors present 50-minute learning modules on a wide array of topics. Through the CLC, students may work toward the completion of courses leading to an NACM designation or specialty certificate. Additionally, NACM hosts teleconferences and webinars focusing on current issues and topics in credit management.

The premier, internationally-recognized Association of Executives in Finance, Credit and International Business (FCIB), provides critical export credit and collections insight, practical advice and intelligence to companies of all sizes. Upon successful completion of FCIB's International Credit & Risk Management online course, participants are awarded the lifetime Certified International Credit Professional (**CICP**) designation. CICP designation holders interested in excelling beyond their CICP designation may apply for the prestigious International Certified Credit Executive (**ICCE**). ICCE candidates and holders are those interested in continuing to engage the global credit community.

Graduate School of Credit and Financial Management

Founded in 1941, the Graduate School of Credit and Financial Management (GSCFM) provides an executive-level program for qualified credit and financial professionals who wish to prepare for greater corporate responsibilities, perform their work more effectively, develop their leadership skills and increase their decision-making abilities. The program is held two weeks each summer for two consecutive years on a college campus. The intensive curriculum covers financial analysis, corporate strategy, economics, presentation techniques, legal environment of credit, leadership and advanced negotiations.

NACM's Credit Congress

Credit Congress, NACM's national, annual convention, offers working sessions, educational sessions and an Expo where attendees can view timely, state-of-the-art products and services offered by vendors to the credit management field.

Training Options for a One-Person, Centralized Credit Department

Among the resources for a centralized single-person credit department are:

- Training both on the job and in house.
- Training through NACM Affiliates, NACM-National and other continuing education conferences or seminars.
- Training through local colleges or self-study. The department manager can motivate individuals by offering to help them with comments and explanations.
- Online and on-demand credit training sessions, teleconferences and webinar sessions offered by NACM-National and its affiliates.

In smaller communities where outside educational facilities are limited, a number of small credit departments could pool their resources for training purposes. Group conferences, study groups and more formal courses can be arranged at a central location, either on company time or after working hours. Often NACM Affiliates can help with curriculum, material, instruction and meeting places.



Comprehension Check

Describe why continuing credit education is vital.

Key Terms and Concepts



Centralized structure, 3-2-3-3, 3-5

Credit policy, 3-7

Credit procedure, 3-7

Decentralized structure, 3-2, 3-3-3-5

Horizontal rotation, 3-11

Job description, 3-8-3-9

Job specification, 3-8

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Onboarding, 3-11, 3-18-3-23

Vertical rotation, 3-11

Comprehension Check



1. Describe how the credit function would operate if credit is controlled at a headquarters office but administered from decentralized locations.
2. List and discuss the benefits of a **centralized** credit operation.
3. List and discuss the benefits of a **decentralized** credit operation.
4. What are some of management's responsibilities?
5. Give examples of various **credit procedures**.
6. What are the components of a **job description**?
7. What are the special characteristics and abilities to look for when selecting personnel?
8. What are the goals of a well-designed training program?
9. Name and describe some popular internal training methods.
10. Describe why continuing credit education is vital.

Summary



- The credit department tends to remain fairly consistent in size and scope during changing business conditions, whether the economic conditions are good or bad, due to an increased support role when sales volumes increase, as well as increased support needed when delinquencies increase.
- Large variations exist among companies, but a credit department is inevitably either **centralized** or **decentralized**.
- **Centralized** credit departments are entirely based in the company's main headquarters.
- **Decentralized** credit departments are not housed in the headquarters, but report to the headquarters from a remote office or offices.
- The role of the mid-level credit manager and the top-level credit executive play similar roles over decentralized and centralized organization structure. However, their authority and duties may differ depending on the credit policies enacted by the credit department.
- The benefits of a centralized credit department include:
 - **Economies of scale**
 - **Consistency and control**
- The benefits of a decentralized credit department include:
 - **Internal and external relationships**
 - **Involvement in setting strategic priorities**

- The functions of management can be divided into five main areas:
 - **Planning**
 - **Organizing**
 - **Staffing**
 - **Leadership**
 - **Control**
- **Credit policy** and procedure are the guiding principles that empower the credit department and credit managers toward successful management and execution of business credit.
- **Credit policy** and procedures include:
 - Development of a credit application
 - This can also serve as a legally binding document to enforce terms and conditions set by the business
 - Keeping credit records
 - Producing accurate invoices
 - Dealing with past due and delinquent accounts
 - Measuring effectiveness and performance
 - Valuable measures of effectiveness and performance include, but are not limited to the following:
 - Bad debt as a percentage of sales
 - Accounts over 90 days past due
 - Aging of accounts receivable in dollars and as percentage of total accounts receivable
- Clear and comprehensive jobs descriptions are essential to attracting the right candidates, describing the position, outlining performance expectations, qualifications, evaluation and job training, along with providing a reference point for compensation decisions.
- Training is an investment that is essential to any business and is essential to keep an informed, knowledgeable and up-to-date staff. Its primary responsibility is to allow employees to progress and reach whatever level of responsibility they can achieve within an organization.
- Training can be broken down into four general types each with their own individual benefits to an organization and employee:
 - **On-the-job training**
 - **In-house training**
 - **Observational tours**
 - **Job rotation program or cross-training**
- It is vital for credit professionals to continue their education because the business environment is always evolving. Without continuing education, a credit professional may put an organization at a higher risk of insolvency due to poor accounts receivable management, which inevitably affects an organization's cash flow.
- **NACM** provides outstanding continuing education programs on both a national and affiliate level. This includes a variety of live classroom courses, and online education through the Credit Learning Center (**CLC**), which can be accessed 24/7, as well as supplementary training that includes open forums, conferences, seminars and webinars.

- NACM’s National Education Department manages a professional certification program, established in 1974, that sets the standards and regulations for professional certifications. The certifications include:
 - National Certifications
 - Credit Business Associate (**CBA**)
 - Certified Credit and Risk Analyst (**CCRA**)
 - Credit Business Fellow (**CBF**)
 - Certified Credit Executive (**CBE**)
 - International Certifications
 - Certified International Credit Professional (**CICP**)
 - International Certified Credit Executive (**ICCE**)
- The (CICP) can be earned after completing the internationally-recognized Associates of Executives in the Finance, Credit and International Business (**FCIB**) online course. The (**CICP**) is a lifetime award. Once the (**CICP**) is earned, those who aspire to continue their education and continue in the global credit community can apply for the (**ICCE**).
- Two additional options for continuing education are the Graduate School of Credit and Financial Management (**GSCFM**), as well as NACM’s Credit Congress & Expo.

References and Resources



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Supplementary Material

What is Onboarding?*

It is important to properly onboard, orient and train new employees as this process can pay huge dividends in the performance and overall success of the employee. **Onboarding** is a strategic process of bringing a new employee into the company/organization and providing information, training, mentoring and coaching throughout the transition. The process begins with the acceptance of an offer and continues throughout the first six to twelve months of employment.

The following checklist will guide the credit manager through the steps to effectively bring a new employee onboard at the company. Please note: not all items may be applicable to every department.

A manager may choose to assign some tasks to a First Friend/Mentor—a co-worker with a good performance standing and a positive point of view. However, the manager should maintain responsibility for the completion of these tasks. They should review the relevant items and plan time for the items on their schedule. They need to record the completion date for each item.

This checklist has been developed with a broad format approach for the Order to Cash/Credit Department. It may require additional checkpoints tailored to specific roles and responsibilities (Order to Cash Manager, Credit Manager, Collector, Grantor, Recovery Specialist, Billing Specialist, Accounting, Account Maintenance, Customer Service).

	PRE-ACCEPTANCE CHECKLIST	RESPONSIBILITY	Date Initiated	Date Completed
HR	Create job profile for credit roles	HR/Manager		
HR	Post job posting internally and/or externally with NACM Credit Career Center	HR		
HR	Compile and send resumes received to the hiring manager	HR/Manager		
HR	Consult with hiring manager to determine which candidates will be interviewed	HR/Manager		
HR	Organize interviews with candidates and hiring manager	HR/Manager		
HR	Conduct interviews with candidates	HR/Manager		
HR	Collaborate with hiring manager on best possible candidates	HR/Manager		
HR	Arrange and take part in subsequent interviews with chosen candidates	HR		
HR	Prepare offer letter once the appropriate candidate is chosen	HR		

	PRE-ACCEPTANCE CHECKLIST 2-3 weeks prior to arrival	RESPONSIBILITY	Date Initiated	Date Completed
S	Network/LAN access and user ID	Manager		
S	Add to corporate/department email distribution lists	Manager		
S	Request system/application access (e.g., mail, Intranet/portal, network directories)	Manager		
S	Order PC or laptop and any bolt-on systems for credit job function	Manager		
S	Order landline and/or cell phone	Manager		
S	Request/assign workstation	Manager		
S	Order VPN Key (remote access)	Manager		
S	Order secure ID tag	Manager		
S	Order parking permit	Manager		
S	Building alarm code and hours of operation	Manager		
T	Coordinate appropriate training plan with learning and development (L&D)/HR or training delegates	Manager		
T	Book training rooms	Manager/L&D		
T	Prepare training schedule handout for new hire on day of arrival	Manager/L&D		
T	Develop training plan specific to the role and new employees' skillset to ensure an overall understanding of the order to cash/credit processes. Reference material available through NACM, internal policies manager/L&D	Manager		
O	Update new hire 1 week prior to arrival on where to meet and any documentation required for HR and security	Manager		
O	If the budget permits, arrange breakfast or lunch with new employee on the first day	Manager		
O	Prepare and send announcement of new team member to division/company employees	Manager		

	FIRST DAY ARRIVAL CHECKLIST	RESPONSIBILITY	Date Initiated	Date Completed
O	Meet the new employee in the company lobby	Manager		
O	Welcome the new employee by introducing them to the team members/department (and/or direct reports/management team)	Manager		
O	Introduce the new employee to the First Friend/Mentor	Manager		
O	Take new employee to HR to complete required paperwork	Manager/HR		
O	Take new employee to the security office to ensure photo ID/company badge is obtained. Register their vehicle with parking services and provide parking instructions	Manager/HR		
O	Have employee sign IT Security, Acceptable Use and Confidentiality Policy	Manager/HR		
O	Take new employee on company/building tour to get them familiar with the amenities (e.g., conference rooms, interoffice mail drop, copier, restrooms, cafeteria, fitness center, breakroom, etc.)	Manager		
O	Explain operation of office equipment: 1) Computer: user name and password, email account, signature, out of office messages and internet usage 2) Phone: voicemail and standard message 3) Other equipment: copier, fax, scanners, etc.	Manager		
O	Explain office security, safety and emergency operations plan	Manager		
O	Discuss appropriate dress code	Manager/HR		
O	Clarify office and IT "Do's & Don'ts"	Manager/HR		
O	Forward calendar meeting invites for upcoming/ongoing meetings associated with credit job function	Manager		
O	Provide new employee universal calendar, holiday schedule, department/division/company phone list, important phone numbers (e.g., help desk)	Manager		
HR	Review and complete new employee paperwork, to include: benefits, pension plan, retirement savings plan	HR		
HR	Record employees personal contact information into payroll system	Payroll Services		
HR	Set up employee's payroll in accordance with employment offer	Payroll Services		
HR	Set up benefits, pension and retirement savings plan	Payroll Services		

HR	HR to provide new employee company handbook	HR		
HR	Ensure new employee completes paperwork for direct deposit	Payroll Services		
HR	Discuss time and attendance reporting policy. Discuss how to access the building after hours	Manager		
HR	Arrange for employee to attend first available HR/ new employee benefits orientation	Manager		
S	Organize workstation	Employee		
S	Activate voicemails	Employee		
S	Confirm all access to drives, networks, distribution lists	Manager		
S	Order purchase card	Employee		
S	Order business cards	Employee		
S	Notify switchboard or have employee update profile directory	Manager		
S	Ensure new employee is added to the department/ company distribution list	Manager		
T	Provide training schedule for First Month Checklist	Manager		

	FIRST MONTH CHECKLIST - weeks 1 to 4	RESPONSIBILITY	Date Initiated	Date Completed
O	Explain the company's mission/vision and goals	Manager		
O	Explain the department's mission/vision and goals and provide the department organizational chart	Manager		
O	Discuss how the new employee's role contributes to the overall success of department	Manager		
O	Familiarize new employee with company products, customers, brands, etc.	Manager/L&D		
O	Discuss and complete environmental health and safety required information (ergonomics)	Manager		
O	Follow up after new employee attends HR/new employee benefits orientation	Manager		
HR	Familiarize new employee with travel services, expense reporting, business credit card policy, etc.	Manager/HR		
T	Overview daily/weekly/monthly tasks	Manager		
T	Familiarize new employee with credit departments standard operating procedures (SOP) (guidelines, workflow instructions)	Manager		
T	Review and ensure an understanding of grants of authority level, approval presentation requirements and hierarchy of approvals	Manager		
T	Training with credit managers and understanding of credit policy/guidelines established by the company	Manager		

T	Review company's sales cycle and how the employees' role supports operations	Manager		
T	Review process of the customer cycle from approvals, billing and payment, collections, recovery, write-offs	Manager		
T	Arrange shadow sessions for new employee within order to cash/credit teams	Manager		
T	Understand different risk associated with the credit function	Manager		
T	Become familiar with legislation and regulations pertinent to business credit decision-making (e.g., SOX, PIPEDA, Red Flags)	Manager		
T	Ensure online access obtained to work with business credit reporting services	Manager		
T	Complete demos to gain an understanding of various business credit reporting services	Manager		
T	Review resources available to remain up to date on industry best practices. That includes participation in Credit Managers' Index survey, newsletters, credit chapters, credit monthly magazines, various NACM workshops/webinars, conferences	Manager		
T	Introduce new employee to sales teams they will be supporting	Manager		
T	Arrange time for new employee to relationship-build with teams	Manager		
T	Make sure new employee has an understanding of the business operations risk tolerance	Manager		
T	Send ongoing invites of regular sales strategy/product launch meetings	Manager		
T	Give overview of credit department's Key Performance Indicators (KPIs)	Manager		
T	Provide new employee with useful company website links	Manager		
T	Explain department/division/company specific acronyms	Manager		
T	Check in that all access is obtained for programs, software, applications, websites (NACM), etc.	Manager		
T	Check in regularly for ongoing coaching sessions	Manager		

	ONGOING CHECKLIST - months 2-12	RESPONSIBILITY	Date Initiated	Date Completed
O	Introduce new employee to various company clubs, chapters, associations, etc.	Manager		
T	Establish and monitor standards of performance for credit personnel	Manager		
T	Review performance management development and professional development planning	Manager		
T	Review allowance for bad debt and write-off procedures	Manager/L&D		
T	Attend financial analysis class to understand ratio analysis and build technical competence	Manager/L&D		
T	Arrange meeting with customer relations representative of credit reporting services to meet with team and new employee	Manager		
T	Devote time to listen to new employee comments and concerns. Provide clarity to employee's questions	Manager		
T	Complete performance evaluation and forward to HR	Manager		
T	Request new employee for onboarding feedback for continuous improvement opportunities	Manager		
T	Continue ongoing job shadowing with business partners for relationship development	Manager		
T	Have employee participate in customer visits	Manager		
T	Continue ongoing coaching sessions	Manager/L&D		
T	Prepare professional development plan and include options such as courses/workshops through NACM and various certificate/designation options	Manager/L&D/HR		

Legend

O: Orientation

HR: Human Resources

S: Systems

T: Training

L&D: Learning and Development

Resource

**Reprinted from the NACM Graduate School for Credit and Financial Management project by Raj Mandlewala, CCE; Michelle Blanchard, CCE and Jennifer Thompson, CCE., class of 2015.*

