SUSTAINABILITY AND ORGANIZATIONAL CHANGE
BY SUSTAINABLE CREDITING THERAPY

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Abstract
The objective of this paper is to demonstrate that one of the therapies to achieve sustainability and organizational change in the context of current challenges in the national economies is sustainable crediting. The research method is based on a survey of 30 commercial companies from various fields of activity that have or have not implemented, at the leadership level, the concept of sustainable crediting. The data collecting and processing approach has resulted in the determination of the main economic-financial indicators for a period of 5 years, indicators used by banks in relation with the credited organizations. The main results show that companies that have implemented the sustainable crediting concept are more able to achieve sustainability in their developed activity, as well as organizational change with positive effects on their business and on the company as a whole. The concept of sustainable crediting implies the capitalization of the commercial companies, the increase of the loan portfolio quality, the achievement of the financial balance and environmental protection.

Keywords: sustainable crediting, sustainability, organizational change, leadership, capitalization

JEL Classification: M14, G32, G34

Introduction
Numerous studies in literature converge to the idea that sustainability and organizational change cannot be conceived in the current challenges of national economies without adequate capitalization of all fields of activity, social responsibility, a relationship between borrowers and banks based on quality and increasing performance and without environmental protection.

Anticipating the deterioration of credits quality due to future crisis that would begin, the World Bank performed in 2006 a study on 100 countries regarding the impact of credits on national economies. Starting from this study there occurred the problem of the effects that credit has upon the performance of the financial markets and credit borrowers, as well as on

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the sustainability and organizational change, and they advocated relationship between borrowers and banks based on quality, which should contribute to performances increase (Brown and Zehnder, 2007).

An empirical analysis on banks in Central and Eastern European countries and on credited organizations, including Romania, concluded that they urgently needed a massive recapitalization (Dinger and Hagen, 2009). Banking-financial institutions confrontation with the new risks as well as the accentuation of the existing ones is the starting point in establishing new international rules on capital adequacy (Bemink et al., 2007), (Chernobai et al., 2007), which are supported by an appropriate management at the level of organizations in the crediting process.

An error made at the level of organizations management is patriarchal thinking that leads to a false sense of security and ignores the value of social capital (Doppelt, 2003).

Among the tools, guidelines, techniques and concepts that can be used to implement the concepts of sustainability and organizational change there is undoubtedly the capital (Weybrecht, 2009), this being considered the instrument that can make the transition from words to action. Under these circumstances, in order to achieve an organizational change with lasting positive effects, there is required an immediate reconsideration of the leadership attitude, regarding the role of profit as well as the urgent change of performance criteria considered so far by repositioning the role of capital (Dunphy et al., 2007). Change primarily requires that our lives should be moulded in new shapes thereby creating a new countenance of capitalism that can increase profits by incorporating social responsibility in its business (Ellis, 2010).

“Through corporate social responsibility companies go beyond legal minimum requirements, in order to get involved in solving social needs. Companies, irrespective of their size, along with their stakeholders can help economic interests reconcile with the social and environmental ones” (Dinu, 2011). Environmental sustainability as a fundamental element of sustainability and organizational change is a necessity for all countries, being closely related to the human quality of life (Vlek and Steg, 2007). “Although the practices of delegating responsibility in the Romanian corporate landscape have occurred as imported values and principles from the European context, local companies have started to assimilate and adjust themselves to the specificity of the Romania organizational culture”. (Obrad et al., 2011).

The role of leadership in creating a sustainable organization is critical. An efficient leadership must answer questions such as: How to manage the change so that the employees and shareholders should understand and accept, at the end of a financial year or of an investment process, issues such as: wage levels, dividends or losses level, the prospects of the organization, sacrifices made etc.? (Marrin, 2011), Leadership for the sake of what? What heritage do you leave? (Yost and Mannon Plunkett, 2009).

The current state of knowledge and current research in the area converge to the idea that sustainability and organizational change must be based on four major coordinates: organizations capitalization, reconsidering economic performances by quality increasing, environmental protection, reconciling economic interests with social and environmental interests. Because the concept of sustainable crediting requires capitalization of commercial companies, an increasing quality of loan portfolio, achieving financial balance and
environmental protection, we tried to demonstrate that this type of organizations financing can be a therapy for sustainability and organizational change.

1. Research method

Data from 30 companies were collected, 15 of them had implemented the concept of sustainable crediting while 15 had not. The commercial companies were chosen from the following fields of activity: trade, clothing, furniture manufacturing, food industry, agricultural production. The data covered the financial statements completed and certified at the end of the year for the period comprised between 2006-2010 and companies were selected according to the criterion of the sustainable crediting concept implementation. There were chosen five fields of activity of national economy which, by their specificity, differ from one another. In determining which fields should companies be selected from, we took into consideration the margins between which the determined economic-financial indicators fluctuate and which vary from one branch to another. In this sample of fields one can record not only the lowest but also the highest levels of the analyzed indicators.

The 30 credited companies were chosen from three banks, representative for the banking sector, banks with which Spiru Haret University, by the Faculty of Financial Accounting Management Craiova, has concluded collaboration agreements for the students’ professional internships. There were selected 10 companies from each bank, 5 (one for each field) that had implemented the concept of sustainable crediting in their activity and 5 (one for each field) that had not considered the concept. The complexity of their crediting activity was another criterion that weighed in the selection process of the companies, being selected those companies that use a variety of crediting products with which they finance both investments and current activity.

Data collection concerning the implementation of the sustainable crediting principles was achieved through the instrumentality of a questionnaire that the leadership of these companies had to fill in. Companies had consented to be subject to research and provided the financial statements for the analyzed period. Based on these financial statements the main economic and financial indicators and, afterwards, their average were calculated, information being centralized in tables 1 and 2.

We have to mention that these financial statements were the basis of the analyses banks had made both in the process of crediting these companies and in the process of monthly credit classifications.

2. Data analysis and results emphasis

As soon as the questionnaires and the economic-financial indicators related data were centralized we proceeded to the next phase of research – data analysis and results emphasis.

All examined companies financed both their current and investments activity with bank credits all through the period under survey. The 15 companies that have implemented the concept of sustainable crediting took into consideration during the analyzed period not only the pointwise funding of their activity for profit making but also business capitalization, increase of loan portfolio quality, financial balance maintenance and environmental
protection. Capitalization was achieved both at the level of social capital and equity through a policy of annual growth during the analyzed period.

The increase of loan portfolio quality was achieved by timely payment of maturing instalments which incurred neither penalty interests nor analysis costs regarding their rescheduling or repayment schedule.

The financial balances maintenance was accomplished through short-term credits to finance current activity and medium and long term credits to finance investments.

Environmental protection was achieved by compliance with the environment, health and safety regulations and social standards (compliance with national regulations and standards regarding environment, health and safety; environmental impact assessment in case of new developmental projects; observance of the production requirements and standards imposed by the European Union standards in the fields of environment, health, safety; borrower’s compliance with national regulations related to employees’ safeguard; quantification of the effects of the project to be funded upon natives, archaeological and cultural heritage).

In the 15 companies that had applied the concept of sustainable crediting, we found a greater extent of implementation of the corporate social responsibility concept, materialised not only in observance of law but also in investment in human capital, environment and relationship with stakeholders.

Worth mentioning that the whole process of activity financing on the coordinates of sustainable crediting was achieved by partnership with banks which ultimately realized that it is more efficient to have in their portfolios sound credits and customers who evolve within this sustainable partnership. This very aspect is, as a matter of fact, the key of the results to be presented in the paper and constitutes, in our view, a major coordinate of sustainability and organizational change.

By contrast, the latter sample of 15 commercial companies financed their activity point wise and focused exclusively on profit regardless of the type of activity.

After having processed the financial statements at the end of the year for the 15 companies that had applied the concept of sustainable crediting, we drew up a synthetic financial statement (table no. 1). The table contains the indicators average for the 15 companies under discussion.

<table>
<thead>
<tr>
<th>Table no. 1: The synthetic financial statement of the companies which have implemented the concept of sustainable crediting</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDICATORS</td>
</tr>
<tr>
<td>Sales of goods + production of exercise (thousands lei)</td>
</tr>
<tr>
<td>Current result of the exercise (thousands lei)</td>
</tr>
<tr>
<td>Result before interest and profit tax payment (thousands lei)</td>
</tr>
<tr>
<td>Net result of the exercise (thousands lei)</td>
</tr>
<tr>
<td>Rate of added value (%)</td>
</tr>
<tr>
<td>Operating net profitableness (%)</td>
</tr>
<tr>
<td>Financial net profitableness (%)</td>
</tr>
<tr>
<td>Interest covering (no.)</td>
</tr>
<tr>
<td>Total balance (thousands lei)</td>
</tr>
</tbody>
</table>
After having processed the financial statements at the end of the year for the 15 companies that had not implemented the concept of sustainable crediting, we drew up a synthetic financial statement (table no. 2). The table contains the indicators average for the 15 companies under discussion.

Table no. 2: The synthetic financial statement of the companies that have not implemented the concept of sustainable crediting

<table>
<thead>
<tr>
<th>INDICATORS</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net equities (thousands lei)</td>
<td>22</td>
<td>55</td>
<td>119</td>
<td>211</td>
<td>220</td>
</tr>
<tr>
<td>Total debts (thousands lei)</td>
<td>135</td>
<td>276</td>
<td>520</td>
<td>860</td>
<td>1200</td>
</tr>
<tr>
<td>Total financial debts (thousands lei)</td>
<td>39</td>
<td>68</td>
<td>130</td>
<td>240</td>
<td>260</td>
</tr>
<tr>
<td>Current liquidity (%)</td>
<td>102</td>
<td>113</td>
<td>117</td>
<td>87</td>
<td>50</td>
</tr>
<tr>
<td>Immediate liquidity (%)</td>
<td>13</td>
<td>21</td>
<td>40</td>
<td>37</td>
<td>21</td>
</tr>
<tr>
<td>Current solvability (%)</td>
<td>117</td>
<td>120</td>
<td>247</td>
<td>181</td>
<td>141</td>
</tr>
<tr>
<td>General indebtedness degree (%)</td>
<td>613</td>
<td>501</td>
<td>436</td>
<td>407</td>
<td>545</td>
</tr>
<tr>
<td>Financial indebtedness degree (%)</td>
<td>177</td>
<td>123</td>
<td>109</td>
<td>113</td>
<td>118</td>
</tr>
<tr>
<td>Net working capital (thousands lei)</td>
<td>3</td>
<td>36</td>
<td>33</td>
<td>31</td>
<td>26</td>
</tr>
<tr>
<td>Necessary working capital (thousands lei)</td>
<td>-40</td>
<td>-35</td>
<td>-120</td>
<td>-99</td>
<td>-50</td>
</tr>
<tr>
<td>Positive (+) or negative (-) net treasury</td>
<td>43</td>
<td>71</td>
<td>153</td>
<td>130</td>
<td>76</td>
</tr>
</tbody>
</table>

The comparison between data in the two tables revealed several noteworthy aspects:

- Companies that have implemented the concept of sustainable crediting led a year after year policy of capitals increase starting from a level of 22 thousand lei in 2006 and amounting to 220 thousand lei in 2010. Under these circumstances the general and financial indebtedness degree is far lower as compared to that of the companies that did not have a strategy to increase capitals. The high levels of the companies’ general and financial...
indebtedness degree, emphasised in Table 2, will hardly allow bank loans, a sudden withdrawal of financing lines being expected.

- Companies that have implemented the concept of sustainable crediting registered significant solvability levels during the analyzed period, while companies mentioned in table no. 2, registered, in 2010, a 74 per cent solvability which indicates bankruptcy.

- Companies that have implemented the concept of sustainable crediting registered an extremely good situation of the financial balance at the working capital and needed working capital level, while the other companies registered, year after year, obvious fluctuations and imbalances at the working capital and needed working capital level.

- Although all analyzed companies felt the economic depression impact, fact revealed by the evolution of certain indicators such as merchandise sales, net result of the exercise, current and prompt liquidity, the companies that have implemented the concept of sustainable crediting faced depression more easily, being able to continue their activity in terms of profitability.

Under the economic depression circumstances, the sustainability and organizational change degree is granted by a greater ability to face shocks. Therefore we consider the study is subservient to the analyzed field since the companies’ survey was achieved both prior to economic depression, when sales exploded, and subsequently.

3. The involvement of the banking system in achieving sustainability and organizational change

The crediting of the surveyed companies was performed from two perspectives. A perspective where crediting banking companies focused on a lasting relationship with the credited companies by their sustainable growth and organizational change based primarily on reassessment of performance criteria (table no. 1) and a latter perspective where they strictly pursued profits earned in the form of interests and fees collected from the 15 credited companies in table no. 2.

In the crediting process of the 15 companies in accordance with the principles of sustainable crediting, banks pursued simultaneously the following aspects: increase of the loan portfolios quality, capitalization of economic agents and banks and environmental protection under its two coordinates – the environment and the economic and social background.

The avoidance of degradation of the loan portfolio quality can be achieved in future from the very phase of credits analysis. This requires an upgrade of the economic-financial indicators with the value of credits for which the analysis is made. Currently numerous cases have been reported when a credit quality deterioration occurred the subsequent month after being granted. This was possible because the value of the credit used during the previous month were entered in the accounts at the level of debts in the check balance for the subsequent month and when banks calculated the credit rating, this was a class below. Under these circumstances it is appropriate, in the spirit of international quality standards, that the main indicators of credits analysis be calculated according to table no. 3, column 2.
Table no. 3: The upgrade of the main indicators in credits analysis

<table>
<thead>
<tr>
<th>Indicator (I)</th>
<th>(1) Classic calculation</th>
<th>(2) Upgrade</th>
</tr>
</thead>
<tbody>
<tr>
<td>I₁</td>
<td>$L = \frac{AC}{DTS} \times 100$</td>
<td>$L = \frac{AC}{DTS + C} \times 100$</td>
</tr>
<tr>
<td>I₂</td>
<td>$S = \frac{TA}{DT} \times 100$</td>
<td>$S = \frac{TA}{DT + C} \times 100$</td>
</tr>
<tr>
<td>I₃</td>
<td>$GG = \frac{DT}{CP} \times 100$</td>
<td>$GG = \frac{DT + C}{CP} \times 100$</td>
</tr>
<tr>
<td>I₄</td>
<td>$GF = \frac{DF}{CP} \times 100$</td>
<td>$GF = \frac{DF + C}{CP} \times 100$</td>
</tr>
<tr>
<td>I₅</td>
<td>$LPV = \frac{RBP + IP}{DAPC} \times 100$</td>
<td>$LPV = \frac{RBP + IP}{DAPC + C} \times 100$</td>
</tr>
</tbody>
</table>

Where:

I₁: $L$ = liquidity; $AC$ = current assets; $DTS$ = debts falling due in less than one year; $C$ = credits that banks customers require and for which credit risk analysis is performed, although at the survey time they are not registered in the check balance.

I₂: $S$ = solvability; $TA$ = total assets; $DT$ = total debts

I₃: $GG$ = general indebtedness degree; $DT$ = total debts; $CP$ = equities

I₄: $GF$ = degree of financial indebtedness; $DF$ = financial debts; $CP$ = equities

I₅: $LPV$ = liquidity for a future period; $RBP$ = own money resources; $IP$ = cash forecast; $DAPC$ = debts related to the crediting period.

In a crediting relationship capital represents its hard core. On one hand, banking regulations limit a bank’s possibility of granting loans to the size of its capital, and on the other hand, each bank’s internal regulations stipulate that the maximum amounts that can be granted in the form of credits can exceed only by a certain number of times the economic agents’ capitals. Under these circumstances bank management should give greater consideration both to bank capitalization and capitalization of economic agents that can be found in the banks’ credit portfolios.

Bank management at its highest level should adopt a policy of financing the economic agents’ capitalization. We refer especially to the outstanding customers that develop export-import activities, those who frequently use guarantee letters limits and letters of credit, those who operate in strategic fields and so on.

We reckon that the days when credits were granted only for the sake of profit accrued from interests and bank commission or when the consolidation of economic agents’ capitals was disregarded, elapsed. The global economic crisis will prove that those who do not have adequate capital will be most severely affected and management, that has so far ignored the proper capitalization, will be seriously affected.
It is necessary that, the ratings, that banks reckon when crediting or when they monthly establish the quality of the portfolio credits, should include two criteria concerning capitalization. The former criterion relates to capitalization stage and the latter to the modality by which capitalization is achieved (table no. 4).

Table no. 4: Upgrading of bank ratings with capitalization criteria

<table>
<thead>
<tr>
<th>Score / Criterion</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalization stage</td>
<td>Powerfully capitalized customer</td>
<td>Capitalization in progress</td>
<td>Capitalization will flow as soon as credit, from own sources, is granted</td>
<td>Capitalization will flow as soon as credit, from own sources and credits, is granted</td>
<td>The customer will not be capitalized</td>
</tr>
<tr>
<td>Capitalization modalities</td>
<td>Contributio n in cash</td>
<td>Profits incorporation</td>
<td>Reserves incorporation</td>
<td>From bank credits</td>
<td>Debts compensati on with shares</td>
</tr>
</tbody>
</table>

The environment issue should be considered in a broader sense, from an economic point of view, on the one hand, and, on the other hand, from an environmental point of view. The mitigation of negative externalities effects of the banking system upon the environment should be a major concern for both bank management at the highest level and supervising authorities. Bad loans represent the major negative externality of the banking system.

Bad loans are associated in Romanian banking practice with unpaid loans, highlighted in banks’ extra balance-sheet accounts, for which the foreclosure proceedings were initiated. This way of considering this issue is restricting and dangerous, especially since bad loans cause a twofold decapitalization of national economy, both in banks and businesses. Taking into consideration the extremely negative effects of bad loans upon national economy, their immediate reconsideration is required.

First of all, at the national economy level, a bad loans is also considered that debt which, despite being reimbursed, caused severe disequilibrium in the economic agents activity, by their inappropriate and counterproductive use due to several causes.

Secondly, practice proved that, in banking, not only loans unregistered in the balance sheet generate increasing disbursement and losses, but also aged and poorly managed credits, consisting of successive maintenance and extension of credit lines in banks’ portfolio, for which commercial companies reimbursed nothing but the amount of interest; among the above mentioned causes some others count, too: the successive rescheduling of the amounts of the loans on object, which allowed the conversion of short-term loans into long-term loans; the conversion of a credit category into another one; the practice of granting credits, by the same bank or by different ones, to reimburse others.

To avoid the emergence of bad loans that can lead to environmental degradation, we suggest the elaboration of a final report with the following structure:

- What is the type of the transaction and borrower’s activity:
  - A thorough description of the activity;
Details about the transaction to be funded;
The object of credit.

- Risk control and impact mitigation:
  - The subsequent undertakings and efforts required or planned by the borrower which do not comply with environmental standards and regulations;
  - Measures taken by the bank to decrease environmental risks.

- The compulsoriness to comply with regulations regarding environment and health safety:
  - Did the borrower pay fines for the violation of environmental regulations during the last three years?
  - What are the main findings reported by the authorities responsible for environmental legislation compliance?
  - Does the borrower observe the national environmental regulations and standards?
  - Is the activity authorised?
  - Is the borrower subject of any litigation consequence of non compliance with the standards and regulations in force?
  - Will the borrower be able to meet the requirements and standards imposed by the European Union in that field?
  - Has the borrower initiated an assessment of environmental impact in case new development projects are to be carried out? Has the new project been presented to local public who might be affected by the project’s negative externalities?
  - Is the borrower able to internalize the negative externalities of his activity in terms of environmental pollution?

- Compliance with social standards:
  - Is population displaced as a result of the funded project?
  - Are there adverse effects upon native population, archaeological and cultural heritage?
  - Are national regulations for employees protection observed (juvenile employment, forced labour prohibition, employees’ discriminatory treatment at their workplace)?

- Were there any negative externalities during the last two years (oil leaks, fires etc.)?
- Are there contaminated materials on the territory under warranty?
- What are the opportunities in environmental field and the analyzed information regarding environment?
Conclusions

The economic depression represented the best test regarding the degree of implementation of sustainability concepts and organizational change. Where the companies that have not implemented the concept of sustainable crediting are on the verge of bankruptcy we consider that the issue of sustainability and organizational change is, to a great extent, completed. Companies that have implemented the sustainable crediting concept proved to have been affected by the economic depression to a lesser extent, being in the position to continue their future activity, in terms of profitability.

The financial balance analysis at the current activity and investments levels with the help of the working capital and needed working capital is a prerequisite to achieve a balance between short term and long term priorities in terms of organizational change and sustainability.

Companies that have not implemented the concept of sustainable crediting, registered great imbalances of long-term and short-term activity, the lack of strategy at this level being an obvious indication of indifference towards organizational change and implementation of sustainability in their activity.

This negative attitude of the leadership towards sustainability and organizational change goes, unfortunately, beyond the boundary of the respective organizations activities. As a consequence of the economic and social interdependence increase, at national and international level, these organizations are liable to generate a series of negative externalities on third parties. Assessment of these negative externalities from a social perspective through the mechanisms of their internalization may be an interesting direction for further research that could offer the opportunity of a comprehensive analysis of the relationship and compatibility between profitability, efficiency and corporate social responsibility in a democratic society, whose objectives include social welfare and sustainable development for its members.

By contrast the leadership that has opted for sustainability and organizational change built capitalized, solvent, involved in solid partnerships organizations, which together with their stakeholders, can help the economic, social and environmental interests reconcile.

Such a state of affairs may generate, for third parties, positive externalities which may be subject to further research meant to improve their incentive mechanisms.

Through active involvement of banks in the implementation of the sustainable crediting concept, partnership between banking and national economy, meant to simultaneously develop both economic entities and banks, may be established. Given that the banking system is both the backbone of national economy and the bridge between the national economy and the economies of partner countries one can create the prerequisites for achieving a balance between local, national and international priorities from the point of view of organizational change and sustainability.
References


