Key Components and Importance of a Credit Department's Mission Statement

A well-thought-out credit policy focuses a company's risk-based decision making and is a highly-regarded guide for conducting B2B credit-related business by all departments—even sales. In order to establish an effective credit policy, a credit department must first have an effective mission statement. Without this strong, secure base, anything built upon it is prone to instability or collapse. As such, the following are important considerations when crafting your credit department's mission statement.

Risk Tolerance: A company needs to take an honest look at where it realistically wants to be positioned in the marketplace. In doing so, it also has to consider out how much risk will be tolerated to get there and whether top officials and company financiers are willing to go to such a level to make that happen. Risk tolerance within a company, in many ways, becomes a culture, an ethos for how business transactions are viewed. Identifying and setting it is nothing to be taken lightly.

Cash Flow/Financial Position: A company's management may be willing to take a higher level of risk, but can the company actually afford to do so? The mission statement should address whether the company can overcome a worst-case scenario, like its largest customer folding, without facing bankruptcy itself. There are, sadly, thousands of stories about businesses with strong products or services and ability to generate raw revenue that went bust because they simply weren't turning their cash around quickly enough, especially when unexpected hiccups came their way.

Where Are Your Customers? The location of your biggest customers can greatly influence a mission statement. For example, if certain areas of the country or world in a potential long-term crisis, that extra risk must be weighed accordingly when setting policies. Such examples are Florida during last decade's deep recession and the effect of Greece's situation on the Europe Union. Other considerations could be high exposures in perennial slow-pay regions, like Russia. Segmenting often does matter here.

Competition/Market Position: Setting tough terms is the way to go in a perfect B2B world, but in the real world, competition often forces a company's credit team to be more accommodating. It's the "if I don't offer it, they will" adage. A credit department has to know their business' competition and marketplace going in and set their policies accordingly.

Are You Compliant? In the United States and among many foreign governments, the number of actions against companies for non-compliance on regulations and ethics considerations has been significantly rising for some time now, as have fine amounts. This is unlikely to reverse. When setting up a mission statement and an overall credit department policy, compliance considerations can't be an afterthought, least a big and expensive headache may be on the horizon for your company.

Source: NACM-National