

Embarrassability And Tendency to Repay Borrowed Funds

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Abstract

Liquidity of banks is one of the measures of good economic standing of a country, since the private sector derives its financial strength from the banks. However, the industry in Nigeria is faced with bad debts as a malignancy, which has led to collapse of many banks in the past. Recently, the CBN instructed commercial banks to make serious moves to recover their debts as the Apex bank may not bail out defaulting banks. Non repayment of loans could be a consequence of failed investment on the part of the borrower, tragic incidents and natural disasters, due to mismanagement or misappropriation of the borrowed funds, or misguided belief about borrowed money. Participants numbering eighty (80) were purposively selected from three cooperative savings and loans customers in Awka. They were aged between 24 and 57 with a mean age of 32 and *SD* of 6.4. They responded to Embarrassment scale, a 25 item questionnaire developed by Kelly and Jones (1977), and an 18 items questionnaire with a yes and no format used to measure tendency to repay loans. The study utilized correlation design. Results show that at $p < .05$, the calculated $r = .38$, which is significant. Therefore the hypothesis was accepted. This result strongly suggests that as embarrassability increases, the tendency to pay back loans also increases.

Key words: Embarrassability ; Banking; Tendency Repay; Borrowed Funds.

Introduction

Financial institutions all over the world seem to love one major problem in common: the problem of bad debts. Bad debts are best seen as loans otherwise recoverable but cannot be collected. The bad debts associated with accounts receivable is reported on income statement as bad debts expense, or uncollectable account expense. What technically constitutes a bad debt depends on accounting convention, regulatory treatment and institution's provisions. In the US bank loans with more than 90days arrears are referred to as problem loans (Oxford Handbook of International Financial Terms, while in Nigeria, 'problem loans' up to six months are expected to be written off.

It is being canvassed that non repayment of bank (or other financial houses') loans still account for significant losses and consequent crises in the finance houses. This scenario definitely challenges professionals in the banking and finance industry. A cardinal function of commercial institutions is to provide credit facilities to her customers; to give loans and advances that facilitate domestic and business development and growth. In this connection, Okaro and Onyekwelu (2003) imply that up to fifty percent of commercial banks 'liquidity goes to loans and advances and credits. The banks therefore require to get back the return on such investment so as to remain afloat.

Non repayment of loans could be a consequence of failed investment on the part of the borrower, tragic incidents and natural disasters due to mismanagement or misappropriation of the borrowed funds, or misguided beliefs about borrowed money (Okafor, 2011) implies that failed loans are a result of poor investment plans (poor feasibility studies/miscalculated investment or bad investment climate), while several policies may adversely affect some business especially those that depend on foreign exchange. However, it is believed that a good number of loan defaulters simply default because of their negative perceptions of borrowed money, and consequent low motivation to pay. It is probably about such people that the old Igbo adage (translated) holds that "those who do not worry about allocated responsibilities will definitely not pay back borrowed money". This implies that some innate characteristics and qualities inhibit the motivation to pay back, or engender insincere use of borrowed money, hence poor investment and poor returns that make it difficult to repay.

It is pertinent to recall that banks do not give loans carelessly. Some basic conditions are usually satisfied and these as outlined by Okaro and Onyekwelu (2003) are:

(a) Has the borrower the necessary legal capacity to borrow?

(b) What is the bank's assessment of the customer? What is known about his/her ability, integrity and experience? Have previous dealings with the customer shown him to be of sufficient standing to inspire confidence?

(c) What does the borrower want the money for?

(d) How much does the borrower want? Will the amount required be adequate or inadequate for the purpose of the loan?

(e) For how long does he/she want the fund?

(f) How does he/she intend to repay?

(g) If the borrower seeks a business loan, what are the prospects of the business? Is it likely to experience growth or decline?

(h) If the borrower is a personal one, what has been his/her record of financial dealing? How has the account been handled in the past.

(i) What security can the borrower offer" pp. 308.

The forgoing pointedly shows banks often take serious precautionary measures against bad debts, therefore the matter may not be that of policy, but that of who the customer is. What are his/her values and fancies, and what are his/her related attitudes. Such qualities as embarrassability and personality therefore come to mind as possible influences on borrower's perception and administration of borrowed money. It is pertinent to note that Ahmad (1997) opine that lack of willingness to pay, diversion of loaned money, willful negligence, improper appraisal of customers by credit officers, and unfavourable business atmosphere are top most scorers among the reasons for loan defaults or delinquency. Unfavourable business atmosphere may be occasioned by changing fiscal or trade policies

of a country, such other factors that may not be entirely within the control of the lender or borrower. However default due to diversion of loaned money, unwillingness to repay and improper evaluation of customers could be controlled or reduced if the 'person of the customer' is known.

Embarrassment is a feeling of awkwardness, shyness or guilt occasioned by a stimulus, mostly in the form of action or expression of someone (or group) against another. The embarrassed may not be expecting such responses, which may include revelation of information that had been taught to be private, which touches on the recipients' public image. Such responses may make one look stupid, dishonest or unacceptable, hence people that value their public image, who desire to maintain high psychosocial profile, or virtuous people work extra cautiously to avoid being embarrassed.

Embarassability is a measure of the readiness with which someone feels embarrassed. It is the tendency for one to experience embarrassment, and has been acknowledged as an enduring characteristic. While some people may be easily and frequently embarrassed, many others seem not to be affected even by major violation of decorum, and are not cautioned by people's responses and expressions of disapproval of their behavior. Modigliani (1968), described this trait-like difference in people's general susceptibility to embarrassment as embarassability. Miller (1996), implies that it is a measure of the emotional response to a self presentational predicament: a measure of aversive state of abashment, nervousness and chagrin. The subjective feeling of inadequacy, awkwardness, and loss of respect (embarrassment), is often accompanied by such distressing symptoms as blushing, cold sweats, tremor, fumbling and stuttering. Embassment is generally precipitated by an awareness that one has failed to demonstrate the demeanor considered appropriate to a particular social role, hence is being perceived by others as deficient and low in certain collective values. Hence embarassability is considered a vital link between

the individual and the social environment, which if established permits the social environment to regulate the individuals' behavior with relative ease (Modigliani, 1971).

Personality is the sum total of the behavioral and mental characteristic that are distinctive of an individual. It may be also informally regarded as, the personal qualities that make up a person's standard. APA (2007) defines personality as the configuration of characteristics and behaviour that comprises an individuals' unique adjustment to life, including major traits, interests, drives values, self concept, abilities, and emotional patters. It is generally viewed as a complex, dynamic integration or totality, shaped by many forces, including hereditary and constitutional tendencies, physical maturation, early training, identification with significant individuals and groups, culturally conditioned values and roles, and critical experiences and relationships.

From the descriptions above, it is obvious that embarrassability is a personality attribute. Some people may be high in embarassability while others may be low, and like other personality attributes, embarassability must be a very cogent variable in interpersonal and social contexts. Indeed, embarassability may even affect people's 'secret' responses since those who are very high in this attribute may be afraid of ever being found out and embarrassed, hence they avoid 'shady' responses even in secret.

Constructivisms, the theoretical perspective that people actively build their perception of the world and interpret objects and events that surround them in terms of what they already know. Holds that one's current state of knowledge guides information processing, and substantially influences how (and what) new information is acquired. This theory suggests that perceptual schemes exists even in respect of events, that once a pattern is clearly established, it may not fade easily, and that if a discomfortable state follows/or is perceived to be a possible reaction towards a behaviour, one may likely not engage in the behavior (Obi-Nwosu, 2014).

In some way, this theory finds a 'richer' definition in the personal construct theory, which according to APA (2007) is a personality theory that holds that people think like incipient scientists in constructing their predictions against experience. The fundamentals postulate of the theory is that a person's processes are psychologically channelized by ways in which events are anticipated, and this postulate is extended by eleven corollaries, including the individuality corollary: persons differ from each other in their construction of events, and the dictionary corollary: A person's construction system is composed of a finite number of dichotomous constructs. The theory interprets emotion as follows: threat is an awareness of the existence of important elements that lie outside the range of convenience of one's constructs system; guilt is an awareness of being dislodged from ones core role structure; and hostility is an effort to exhort validation evidence in favour of a social prediction that has already failed.

Agreeably, then, if one perceived that an excuse will traumatize his/her ego, sense of self worth, or pride, which of course is esteemed, then the person is unlikely to engage in such a behaviour. Personal construct theory seems adequately connected to embarrassability since it spells the connectedness of the effect of awareness on arousal states at individual level, and the natural sequence of events that necessarily follow each other when violations of personal standards occur. In this connection, it is plausible that persons, who would experience uncomfortable arousal states (embarrassment) due to perceived negative evaluation by compatriots and the public due to indebtedness, would more likely pay their loans even at high personal costs.

Statement of the problem

Liquidity of banks is one of the measures of good economic standing of a country, since the private sector derives its financial strength from the banks. However, the industry in Nigeria has faced with bad debts as a malignancy, which has led to collapse of many banks

in the past. Recently, the CBN instructed commercial banks to make serious moves to recover their debts as the Apex bank may not bail out defaulting banks. Some banks are currently at the verge of collapse or merger because of unpaid loans, yet most of the customers were thoroughly screened before the loans were granted. Why then do the customers renege on their responsibility to the banks? However, many banks recover substantial amounts after mounting tight throat pressure on their customers, suggesting that other factors must be playing significant roles in determining who willingly pays, and who must be 'forced' to pay. Is embarrassability one of such significant variable?

Hypothesis

Embarrassability will significantly correlate with tendency to repay borrowed fund among Microfinance bank customers.

Method

Participants

Participants numbering eighty (80) were purposively selected from three cooperative savings and loans customers in Awka. They were aged between 24 and 57 with a mean age of 32 and SD of 6. 4. All the participants had secondary education.

Instruments

The susceptibility to Embarrassment scale, a 25 item questionnaire developed by Kelly and Jones (1977), and scored on a 7point likert format was used to measure embarrassability. While a questionnaire designed for this purpose using 18 items with a yes and no format was used to measure tendency to repay loans. Some of the questions on this questionnaire

were: Loans should always be paid as and when due .2. Loans could be used for another very important purpose that was not mentioned to the creditor. 3. Creditors should understand that loans may not always be recovered. 4. Not being able to pay back a loan does not mean lack of integrity. The two instruments were collapsed into one questionnaire but separated by a paragraph and numbered separately.

Procedure

Copies of the questionnaire were distributed to the participants through the PRO of the cooperative banks. The officers were properly briefed on the purpose and scope of the research. Eighty of the 126 copies of the questionnaire were returned properly completed.

Design and statistic

A correlation design was adopted, and the Pearson Product Moment Correlation was the appropriate statistic.

Results

Table 1 o Pearson Moment Correlation between Embarrassability and Tendency to repay borrowed money.

N	Factor	Mean	SD	r.cal
180	Embarrassability	103.18	20.44	
	Tendency to repay borrowed money	38.92	10.66	.38*

*p< .05

From the table above, the mean scores for embarrassability and Tendency to pay borrowed money were 103.18 and 38.92 respectively. Also, at $p < .05$, the calculated $r = .38$, which is significant. Therefore the hypothesis was accepted. This result strongly suggests that as embarrassability increases, the tendency to pay back loans also increases.

Discussion and conclusion

Embarrassability is here conceptualized as a personality characteristic which measures the extent to which someone may feel awkward, shy or guilty due to someone's action. It is a measure of emotional response to self preservation predicament. Results of the analysis upheld the hypothesis, suggesting they were easily a person may feel embarrassed, the less likely she will hold back or misappropriates borrowed money.

The finding is in tandem with the theoretical postulations of this study which implies that self construct is positively related with embarrassability, and that embarrassability is a motivating factor for normative behaviour. Obi-Nwosu, Nwokeji, and Ossayi (2015) had found a negative significant correlation between embarrassability and tendency to indulge in examination misconduct. Since examination misconduct is a non normative response, it is agreeable that the present study derives authentication from that, since the positive relationship here is for normative response.

It can be inferred from the foregoing and specifically from the findings of this study that people who are low in embarrassability are much less likely to pay back borrowed money than those on the opposite divide. That is, a test of/for embarrassability must be a quick and subtle way to screen people who would want to enjoy credit facilities. It is therefore suggested that credit institutions should introduce this kind of psychological assessment to what they already have so as to tangibly reduce the incidence of bad debts.

Limitations of the study

The instrument on tendency to repay borrowed money is not standardized, and the set of creditors that participated are factors that may limit the generalization of the findings. Further studies to fill this gap are advocated.

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