

A SERVICE DELIVERY FRAMEWORK TO UNLOCK THE REVENUE POTENTIAL OF THE SME SEGMENTS OF COMMERCERCIAL BANKS IN SOUTH AFRICA

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DECLARATION

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OF THE SME SEGMENTS OF COMMERCIAL BANKS IN SOUTH AFRICA**

DECLARATION

In accordance with Rule G4.6.3, I hereby declare that the above-mentioned
Treatise/dissertation/theses is my own work and that it has not previously been
Submitted for assessment to another University or for another qualification.

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Signature

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Life will give you whatever experience is most helpful for the evolution of your consciousness; my MBA journey has truly been evolutionary.

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ABSTRACT

Small and Medium sized Enterprises (SMEs) are a vital driver to the world economy. They provide more than 60% of overall employment globally and approximately 80% of jobs in developed economies. This segment however remains underserved by banks who have struggled to serve SMEs effectively. Nevertheless banks are still perfectly placed to capture the needs of SME customers and to provide them with greater value adding services that address their needs. However, this must be done in a cost-effective manner to ensure long-term portfolio and banking profitability.

SME Banking faces several challenges centred on the high cost to serve and profitability. For the banking sector to overcome these challenges and still meet increasing and changing customer needs, significant investment in digital technology is required. The literature reviewed identified that in order to unlock the revenue potential embedded within the SME segment; banks need ground-breaking solutions to solve their revenue and profitability conundrum. This study mentions that such solutions will need to be focused around placing banks as market enablers, by way of providing SMEs with a growth platform and not just financial transaction services.

The study also identified a hybrid service delivery model and a digital ecosystem approach to SME banking as being pivotal to unlocking the revenue potential embedded within the segment. Through a digital ecosystem approach, banks can leverage their intra and inter banking network to assist SMEs to grow their businesses. In the process, this will serve as a way of increasing penetration into this underserved segment. In addition, such an approach to banking necessitates an acceptance of how interconnected business relationships have the capacity to enable business growth and subsequently to address SME banking risk. To also consider that banks in South Africa continue to view SMEs as being too risky and costly to serve. This study attempts to address this perceived riskiness by presenting a service delivery framework, which consists of key factors that would influence the revenue potential of the SME segments of Commercial Banks in South Africa. The empirical part of the research evaluated banking official's awareness and understanding of key concepts that is likely to influence their views with regards to the revenue potential of the SME market.

Key words: digital ecosystems, business growth platforms, interdependent business relationships, service delivery framework, SME Banking, risk management and market segmentation.

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LIST OF ACRONYMS AND ABBREVIATIONS

BBSDP	Black Business Supplier Development Programme
BER	Bureau of Economic Research
BIAC	Business and Industry Advisory Committee
EY	Ernst & Young
Fin-Techs	Financial Technology Company
GDP	Gross Domestic Product
IFC	International Finance Corporation
NDP	South African National Development Plan
OECD	Organization for Economic Co-operation and Development
RM	Relationship Manager
ROE	Return on Equity
SAICA	South African Institute of Chartered Accountants
SMEs	Small and Medium Sized Enterprises
SSA	Sub-Sahara Africa
BCG	Boston Consulting Group
OCF	Operating Cash Flow
SA	South Africa
STD	Standard Deviation

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CHAPTER ONE

INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

Small and Medium Enterprises (SMEs) are a vital yet frequently disregarded driver to the world economy (World Economic Forum, 2015). Domestically the South African National Development Plan (NDP) projects that 90% of new jobs will be created by SMEs (SAICA, 2015). SMEs play a major role globally, mainly in emerging countries, whereby 60% of total employment and up to 40% of GDP can be attributed to formal SMEs (World Bank, 2017). In South Africa, SMEs are of great importance to the domestic economy for different reasons. For example, SMEs have been recognized as dynamic drivers of development and inclusive economic growth (Banking.org.za, 2017). It has been estimated that nationally SMEs constitute 91% of formal businesses, employ approximately 60% of the workforce and its total economic contribution to GDP amounts to roughly 34% (Banking.org.za, 2017).

The banking sector has routinely looked at SMEs as challenging due to information asymmetry, higher cost of serving smaller transactions and lack of collateral (IFC, 2010). On the other hand, entrepreneurs and innovators saw an opportunity and over the last several years have created an emerging, dynamic market of online lenders that use technology to disrupt the SME lending market (Mills & McCarthy, 2016). Tornes, Nielsen, Fielding and Stumbles (2016) highlight how the historical approach of banks to be everything for everyone has proved to be very costly. The authors argue that this was particularly evident after the global economic crisis of 2008, when SME banking profitability declined significantly. The decline, according to Tornes et al. (2016), drove huge credit losses and provoked restrictive regulatory responses.

As a result, this segment remains underserved as banks continue to struggle to service SMEs effectively. Banks have continued to regularly shift their business models in pursuit of serving the market segment profitably. Central to the model conundrum is the difficulty of serving the SME market, not necessarily with regards to products or service needs, but rather due to the SME segment being heterogeneous (Ernst & Young, 2014).

According to Bugrov and Poppensieker (2017), digitization, a weak global economy and regulation will considerably lower profitability of banks over the next three years. In order to counter these forces, the authors argue that most banks have to undertake a fundamental transformation centred on re-orientation, renewal and resilience. If banks do not move quickly to engage with SMEs digitally and amend their existing service delivery models adequately, they risk losing even more market share to Fin-Techs (Mckinsey & Company, 2017). A departure from traditional approaches and lowering the costs of serving the SME Sector is key to addressing the above mentioned issues.

Additionally, if banks don't start to vigorously defend and strive to grow the SME segment, they stand to lose a sector that is vital to banking profitability and to the larger economy. Profitably servicing the SME sector will require a tailor-made portfolio management approach especially considering the market's heterogeneous nature. As a result, in order to successfully build-up an SME portfolio and cultivate customized and attractive offerings, banks need a clear view on how they plan to address the different needs of groups within the SME market. Such a portfolio approach means that a bank will be providing financial services to a portfolio of SMEs instead of a list of individual SMEs. Traditionally, costs have been spread equally across the customer base notwithstanding disproportion in the revenues customers provide. A portfolio approach will mean that at appraisal stage, the analysis of the portfolio's performance will be broken down by size, sector, location and market.

Given the importance of banks to the SME segment, this study investigates a service delivery framework to be implemented as part of the banks SME segment customer management strategy. It will also identify critical success factors that will enable the SME Relationship Manager (business managers) to effectively execute the banks customer management strategy.

Chapter One provides a summary of the research problem for this study and additionally highlights the important questions that are anticipated to provide a solution to the core problem. It further highlights the objectives of this research and the implication of this study which rationalizes the need for this research.

1.2 BACKGROUND

1.2.1 SME Sector and SME Banking

According to Stevenson and Pond (2016), an extensive amount of renewed research interest in the area of SME financing has increased for the most part due to internationalization of financial markets. The authors also maintain that supporting SMEs financial needs is critical for a country's growth. Evidence exists that SMEs are crucial for economic growth and competitiveness of any country (IFC, 2010). In contrast, some banks still see the market as unprofitable and costly to serve, a segment they are obliged to service, rather than as an attractive business (Valvano, Casale, Schwarz, van den Berg, Goyal, Zanichelli & Halliday, 2016). Nevertheless, banks in most developed and developing economies still believe that the market is "unsaturated" and promising, regardless of the perceived "highly competitive" nature of the segment (Karadag & Akman, 2015).

Given the unique financial requirements of SMEs, banks have to evolve from historical "product pushers" to holistic advisors that can help manage and grow their business (Ernst & Young, 2014). An Infosys (2017) report stated that SMEs believe that banks don't understand their needs or support them well. In addition, they also feel banks still focus on traditional service and sales models, which are unaligned with today's SME needs. According to the report, this has resulted in the historically strong relationship between banks and SMEs gradually beginning to erode. Furthermore, banks worldwide are under intensified pressure from the mixed revenue and profitability position, resulting in low return on equity (ROE) being reported by the sector. It is stated that a low ROE is not inexorable; it originates mostly from a high cost to serve and higher non-performing loans due to high default rates (Tornes et al., 2016). This provides evidence that the ability to profitably service the SME customer and manage SME credit risk efficiently has become even more critical, considering the tussle to meet investor expectations around ROE.

1.2.2 Income potential and profitability

If banks continue to solely focus on cost alone instead of value when dealing with the SME segment, they risk surrendering billions in revenue to other organizations. According to recent research in the United Kingdom, the potential annual revenue opportunity for banks from value-added services is estimated to be roughly £1.6 billion. Over a few years, the forecasted total revenue opportunity for UK banks will be £8.5 billion by 2020 (Accenture, 2016). According to Karadag and Akman (2015), providing multiple non-lending services and products to SMEs will have a positive impact on ROE.

This provides evidence in support that SMEs constitute a substantial and growing opportunity for banks, but the multiplicity of their needs and requirements make them a challenging target (IFC, 2010). Valvano et al. (2016) argue that if banks align their service models according to a value-based segmentation approach, whereby customer needs are balanced against the banks economic, revenue and profitability, growth objectives will then be achieved. The authors state that under such an approach, high value customers will receive the most personalized high-touch service and lower value customers will be served through a more cost-effective approach, utilizing a combination of Relationship Manager (RM) support and virtual channels.

1.2.3 Competition and the competitive strategy

The service industry is hyper-competitive, often demanding businesses to find the best approach to create, attract and retain a segment of satisfied customers. The Financial Services Sector is no different (Retap, Abdullah & Hamali, 2016). According to Abraham (2013), the manner in which an organization chooses to contest in this hyper-competitive business environment impacts on organizational performance and on whether an organization can successfully grow its market share. Abraham further argues that innovative approaches are critical in successfully identifying and refining operational competencies needed to outperform business rivals.

In contrast Leavy (2015) argues that only through value adding processes can competitive advantage be gained. Dawar(2013) puts forward a different argument by stating that sustainable competitive advantage can only be derived from downstream activities rather than upstream activities in a hyper-competitive environment. Dawar argues that upstream activities are becoming increasingly “commoditized or

outsourced”, while downstream activities on the other hand are aimed at decreasing customer’s costs and risks and are quickly emerging as the new “drivers” of value creation and competitiveness. It then implies that companies that are the earliest in tilting their strategy downstream are likely to reap the biggest rewards (Girotra & Netessine, 2014). Tilting downstream means influencing a customer’s purchasing criteria, innovating to solve customer problems and building competitive advantage by accumulating customer data and harnessing network effect (Dawar, 2013).

For instance, countless SMEs are also suppliers to larger corporates and Government agencies. Through understanding these ownership structures and supply chains, banks can indirectly strengthen their SME franchise and in the process engage in downstream value creation by offering related products and services.

1.3 STATEMENT OF THE RESEARCH PROBLEM

1.3.1 Problem statement

Against this background, the research problem is formulated as follows:

Resulting from information asymmetry, lack of collateral, evolving needs of the SME customer and the higher cost of serving smaller transactions, Commercial Banks in South Africa find it difficult to successfully deploy service delivery frameworks that can effectively maximize revenue streams from their SME segments.

1.3.2 Research questions

Stemming from the above, the following main research question has been recognized:

What service delivery framework is needed to unlock the revenue potential embedded within the SME segments of Commercial Banks in South Africa?

The following secondary research questions will be explored and have been recognized as being key to solving the main research question.

Table 1.1: Secondary research questions	
Ref #	Question
RQ1	What are the key factors contributing to the perceived riskiness of SME Banking?
RQ2	What is the business potential embedded in the SME segments of Commercial Banks?
RQ3	Is the current service delivery framework still relevant?
RQ4	What changes are required in SME Banking to unlock the revenue embedded in the SME segment?

1.3.3 Research objectives

Stemming from the above main research question and secondary research questions, the following main research objective has been recognized:

To investigate the predominant service delivery framework within the SME Banking Sector, with key focus on current shortcomings and opportunities. Subsequently, to develop a new service delivery framework which will comprise of the factors that will effectively assist Relationship Managers to capture the revenue potential embedded within the SME Segment.

The following secondary research objectives will be explored and have been recognized as being key to achieving the primary research objective.

Table 1.2: Secondary research objectives	
Ref #	Objectives
RO1	To conduct an analysis of the prevalent risk embedded within the SME segment.
RO2	To conduct an analysis of the potential business opportunity embedded within the SME segment.
RO3	To conduct a detailed analysis of the various service delivery components necessary for modern day SME Banking.
RO4	To construct a conceptual framework that will potentially unlock the revenue embedded in the SME segment.
RO5	To empirically assess the proposed framework and the suggested proposition by means of sourcing data from a leading Commercial Bank in South Africa with a significant SME portfolio.

Table 1.3 presents a consistency matrix that portrays the link between the research questions, research objectives, Chapter outline and deliverable for each Chapter.

Table 1.3: Chapter and research question/objective association		
Chapter	Research Question	Research Objectives
Two	Q ₁ , Q ₂ , Q ₃	O ₁ , O ₂ , O ₃
Three	Q ₄	O ₄
Four	Q ₁ , Q ₂ , Q ₃ , Q ₄	O ₁ , O ₂ , O ₃ , O ₄
Five	Q ₅₄	O ₅
Six	Q _m	O _m

1.3.4 Significance of the research and beneficiaries of the research.

The segment being investigated is the Financial Services Industry, specifically the Banking Sector, with a specific focus on SMEs and how the Banking Sector currently services this unique market segment. The research will attempt to deliver a service delivery framework which can be used by Commercial Banks in South Africa to maximize the revenue potential embedded within the SME segment. The framework also has the potential to inform on key competencies that are required from the SME relationship manager, which will assist Commercial Banks in effectively leveraging their SMEs revenues to bring about sustainable profitability to the entire bank. This study will also advocate for a deliberate coverage and portfolio management model which will outline fundamental choices on how the SME customer will be serviced, where to play and how to win. Additionally, the successful completion of the research should also indicate further possibilities for additional research.

The following groups will benefit from the research findings:

- The Commercial Banking Sector in South Africa offering financial services to the SME segment.
- Fin-tech companies in South Africa looking to broaden their value proposition into the SME segment.

- Human Resource functions within the Financial Service Sector – specifically with regard to the selection of RM's (Relationship Managers) and effective performance management.

A conceptual framework based on the literature review will be developed, thereafter a questionnaire will be constructed and then tested within a selected sample by this research. Subsequently, a predominantly quantitative approach will be followed to evaluate the proposed framework. Chapter Four delivers evidence on the adopted research process for this research project. It will further elaborate on the leading research paradigm, design, approach and strategy for this study. A questionnaire precisely designed for the determination of this research will be used as the chief primary research mechanism.

1.4 ASSUMPTIONS

The following will be assumed by this research,

- SME portfolio characteristics are constant across the Commercial Banking sector in SA.
- Universal SME studies apply to SME studies in the local environment.
- Market and Economic conditions impacting on the SME customer base will remain constant for the duration of the study.
- A conceptual framework can be developed based on relevant case studies, the study of literature on Customer Management and Banking Business models.
- The proposed framework is applicable to the prevailing conditions in the SME market in a specific time cycle and within a specific regulatory and institutional framework.
- It is assumed that the outcome of this study can be used by banking Senior Management to effectively manage their SME Customer Management Strategy.

1.5 DEFINITION OF KEY CONCEPTS

1.5.1 SMES

For the purpose of this study, an SME in South Africa is defined as a business that has one or more of the following attributes: the business owner is actively involved in the daily running and managing of the business, the business does not employ more

than 200 full time employees, the annual turnover is less than R65 million and has capital assets of less than R10 million. SOURCE: The National Small Business Act of 1996

CHAPTER TWO

RECONFIGURING THE SME BANKING BUSINESS MODEL

2.1 INTRODUCTION

Research questions Q1 to Q3 and research objectives O1 to O3 are addressed in this Chapter. A summary of the research was provided in Chapter One, highlighting the specific research questions, objectives and the significance of this academic research. Chapter Two will present an overview of the global SME market in Sub-Saharan Africa and South Africa within the context of the Banking Sector. The remainder of the Chapter will present an investigation into the risk embedded within the SME landscape, the business potential embedded in the SME segments of Commercial Banks and the various components of a service delivery model within the SME banking market. In order to accomplish the above, customer relationship management literature will also be reviewed with the aim of creating a roadmap that will assist Commercial Banks in strategically increasing the profitability of their SME segments. In doing so, RQ1, RQ2, RQ3 and RO1, RO2, RO3 will be addressed.

2.2 GLOBAL SME MARKET OVERVIEW

SMEs are recognized as being key to the creation of jobs, the growth of the economy and economic and social cohesion (OECD, 2015). SMEs are vital to the global economy, contributing more than 50% to both the GDP and private sector jobs (Ernst & Young, 2014). Their importance has been well recognized globally, due to their substantial contribution towards the attainment of various socio-economic objectives, which include the following: higher growth of employment, promotion of exports and encouragement of entrepreneurship (Keskin, Sentürk, Sungur & Kikis, 2010). Considering bigger companies are downscaling and outsourcing more functions, the heaviness of SMEs in the economy is constantly increasing (OECD, 2000).

According to the World Bank, approximately 600 million jobs will be required in the next 15 years to absorb an emergent global labour force. At present the majority of formal jobs in emerging markets are with SMEs, roughly creating four out of five new positions (World Bank, 2017). This illustrates yet again that productivity and consequently economic growth is strongly influenced by the total number of active SMEs and subsequently their birth and death rates (OECD, 2000). Bearing in mind

that over the past few years the time required to start a business has been decreasing in many developing countries, this is anticipated to foster more entrepreneurs and further enhance the pace of growth in the SME markets of developing economies (World Bank, 2016).

In the meanwhile however, the world economy has been growing at its lowest rate since the onset of the global financial crisis. Increasing investment and productivity levels in SMEs is crucial to strengthening the recovery and ensuring that economic growth patterns have concrete foundations (BIAC, 2016). As the world economy contends with this enormous challenge, governments will increasingly look to SMEs as a key driver of sustained and inclusive growth. In the interim, banks continue to report mixed revenue growth and profitability as a result of compressed spreads due to low demand and increased cost of doing business due to increased regulations (Ernst & Young, 2014). This is also emphasized by Tornes et al. (2016), who states that a significant number of banks continue to experience shrunken SME profitability.

It is evident that banks globally have an indecisive stance toward SMEs. In the United States, for example, banks are making fewer SME business loans in comparison to a decade ago. Whereas in Europe, this represents 50 to 60% of corporate revenue for banks. Developing countries continue to face unique and different challenges, given that SME banking can be quite profitable in the context of high interest rates and relatively high fees.

Nonetheless, an average growth rate of 10-15% has been projected for the SME market and approximately 200 million formal and informal SMEs in developing economies are thought to be either un-served or underserved (Hailey, Gonzalez, Brassel, Segares & Tschan, 2017). An emerging trend is that globalization has compelled SMEs to become innovative in order to take full advantage of opportunities that are emerging in the marketplace. Given the substantial credit gap and sluggish growth levels, SMEs cannot seize opportunities in world markets without access to the financial services they require in order to compete, grow and add value to the global economy (BIAC, 2016). Considering the Banking Sector has been reporting mixed revenue growth, partly due to lower demand and increased cost of doing business, these intensified pressures have led hard-pressed bank executives to develop new income streams to improve revenues (Ernst & Young, 2014).

2.3 SUB-SAHARA AFRICA (SSA) SME MARKET OVERVIEW

SMEs inhabit a noticeable spot in the developmental programme of most transitional economies and developing countries worldwide. Sub-Sahara Africa (SSA) being no exception. SMEs account for more than 90 % of formal sector businesses and between 16-33 % of the employed population in Africa are employed by SMEs (Bureau of Economic Research, 2017). Furthermore between 70-80 % of SMEs in Africa are micro-sized, while only 5-15 % are medium-sized (Mutalemwa, 2015). Mutalemwa's study further highlights that SMEs operate in almost all the sectors of the economy and within specific economic, social, cultural and political environments (2015) . In contrast, the SME segment in this region has been referred to as the 'Missing Middle' in the context of financial inclusion or access to financial services (Dos Santos, 2015). Even so SMEs still create around 80% of the SSA employment, and in the process have created a new middle class which has stimulated a demand for new goods and services in the region (Dos Santos, 2015). Fostering SME growth and competitiveness is, therefore, central to SSA's economic growth strategy (IFC, 2017).

However the lack of access of funding to SMEs in SSA continues to be a challenge, primarily due to the fact that the provision of funding in Africa is generally rated as riskier than for other regions (Quartey, Turkson, Abor & Iddrisu, 2017). Commercial Banks in SSA have not aggressively chased SME lending due to the risk perceptions of the borrower. Astonishingly when supplied with proper SME financials and other related information, many banks are still reviewing SME applications under retail or Commercial Bank loan criteria because a comparative underwriting policy for SME loans does not exist (Mancini, Yee & Jain, 2008). Relationship banking continues to be the predominant approach with SSA banks although less biased lending approaches such as risk-based lending and credit scoring would be more suitable. However, these approaches are not well understood or practiced rigorously by SSA banks hindering SMEs ability to contest on a level playing field for loans.

For SSA to be able to compete effectively in the increasingly globalized environment, SMEs should have access to affordable financial products and services in order to grow and transform their own capabilities to such an extent that they will be able to adapt efficient production techniques and assist in growing the region's economy (Quartey, Turkson, Abor & Iddrisu, 2017).

2.4 SOUTH AFRICAN SME MARKET OVERVIEW

In South Africa, SMEs vary in size from a medium-sized business, such as an established traditional family business employing just over a hundred people, to informal micro-businesses. The latter includes survivalist self-employed persons, from the poorest layers of the population. Survivalist SMEs are headed up by entrepreneurs who cannot get jobs and this is their last option for survival. The high end of the range is similar to SME segments in developing countries (Bureau of Economic Research, 2017). The development of SMEs is important for addressing many of South Africa's economic problems given the failure of the formal and public sector to absorb the growing number of job seekers in South Africa (Garwe & Fatoki, 2012). In view of the above in South Africa, a large majority of SMEs are concentrated on the very lowest end, where survivalist firms are found (Bureau of Economic Research, 2017).

Nonetheless, SMEs continue to contribute significantly towards the National GDP and job creation. In South Africa, SMEs constitute 91% of formal businesses, employing about 60% of the labour force with their contribution towards the GDP being roughly 34% (Banking.org.za, 2017). Locally, SMEs are currently at the forefront of local economic development and are acknowledged as being key to resolving socio-economic problems (Urban & Naidoo, 2012). A number of government agencies and initiatives have been launched to support and grow the SME sector (Simo Kengne, 2016). For example, the Black Business Supplier Development Programme (BBSDP) offers cost-sharing grants to black-owned small enterprises. The aim of these grants is to assist these SMEs in improving their competitiveness and sustainability, so that they can become part of the mainstream economy and assist in reducing the unemployment rate (Department of Small Business Development, 2017).

In its attempt to transform the economy and create employment, South Africa faces several challenges. Recent SAICA (2016) research mentions that SA's target is to reduce unemployment from 25% to 14% by 2020 and to 6% by 2030. According to the National Development Plan (NPD), 90 % of these jobs need to be created by SMEs and expanding firms. For that to happen, the economy will need to be more enabling of business entry and expansion, with an eye to credit and market access according to the National Planning Commission (2017). Commercial Banks in this market also continue to view SMEs as high risk due to low capitalization, lack of collateral,

insufficient assets and vulnerability to market conditions (Falkena et al., 2002). Success in the provisioning of financial services to SMEs differs materially in different countries in terms of profitability. For instance in South Africa, the ROE of South African banks is not particularly high. South African Banks average risk Return On Equity is 6%, which is relatively lower to the 18 % in the UK and 12 % in the USA and Australia (Falkena et al., 2002). According to Matthee and Heymans (2013), South African SMEs also face additional challenges on the political and macroeconomic fronts, originating from volatile currency, political instability and labour unrest.

To illustrate the importance of SMEs to the South African economy, there are approximately 2.3 Million SMEs in South Africa. Tables 2.1-2.3 present their spread by Economic Sector, Ownership Types and Province.

Table 2.1: South Africa SMEs by Economic Sector and contribution to GDP (2015)

	SMEs by Economic Sector				GDP (2015Q2)
	Formal	Informal	Other	Total	R million
Agriculture	0	0	56 774	56 774	35 213
Mining	0	2 199	0	2 199	69 421
Manufacturing	62 657	138 801	0	201 459	111 672
Electricity, gas & water	6 656	801	0	7 456	38 647
Construction	77 098	222 143	0	299 242	38 804
Trade & Accommodation	186 798	757 669	0	944 467	129 144
Transport & Communication	56 620	76 514	0	133 134	87 612
Finance & Bus. Services	172 423	99 289	0	271 712	183 430
Community	105 181	200 444	0	305 624	50 982
Other	0	0	29 754	29 754	70 711
Total	667 433	1 497 860	86 528	2 251 821	815 636

Source: Stats SA (2015)

Table 2.1 above illustrates that the industry sector is a key factor in terms of market Opportunity, risk characteristics and the purchasing power of SME customers in each Sector. For example, the Finance & Business Services and Trade & Accommodation Economic Sectors are the two major contributors from a value perspective (GDP). This illustrates that segmentation based on industry and on the targeting of certain kinds of services to a particular industry may allow for the quickest and most effective design and delivery of services in the SME Sector for Commercial Banks in South Africa.

Table 2.2: Number of SMEs in South Africa by Ownership

SMEs	SME's by ownership				Total
	Formal sector	informal sector	Agriculture	Private households	
An employer	462 815	304 303	41 971	740	809 829
Own account worker	204 618	1 193 557	14 803	29 014	1 441 992
Total	667 433	1 497 860	56 774	29 754	2 251 821

Source: Stats SA (2015)

Table 2.2 above illustrates that the majority of SMEs are own account workers. What can then be deducted is that the majority of SME owners will be expecting the same level of digital innovation in their businesses as they do in their personal capacity. This also offers banks the opportunity to link personal and business wealth.

Table 2.3: Number of SMEs in South Africa by Province

	SMEs by Province			Total
	Formal Sector	Informal Sector	Other Sector	
Gauteng	306 231	465 100	13 989	785 321
KwaZulu-Natal	74 976	283 165	15 293	373 434
Limpopo	28 054	207 512	14 098	249 663
Western Cape	110 107	110 188	10 030	230 324
Eastern Cape	50 670	141 739	4 957	197 366
Mpumalanga	35 208	141 129	9 063	185 399
North West	27 430	79 153	6 273	112 856
Free State	26 224	60 816	9 806	96 846
Northern Cape	8 534	9 058	3 019	20 611
Total	667 434	1 497 860	86 528	2 251 820

Source: Stats SA (2015)

Table 2.3 above illustrates that Gauteng has almost as many SMEs as KwaZulu-Natal, Limpopo and Western Cape combined. This indicates that the simple traditional geographic allocation of SME relationship managers will not be sufficient to unlock the revenue potential embedded within each province. A more innovative approach will be needed to service each province adequately.

2.5 BUSINESS OPPORTUNITY ENTRENCHED IN THE SME SEGMENT OF COMMERCIAL BANKS

According to McKinsey (2012), it is important to understand the size of the banking revenue pool in the sectors in which SMEs operate. Hailey et al. (2016) states that SMEs account for 9 out of 10 businesses worldwide, with an estimated financing gap of roughly 2.1-2.6 trillion in developing economies. Providing financial products and services to the SME market is a global issue that is worthy of being addressed. In emerging markets, the banking revenue from SMEs is estimated at \$360 billion, while the demand for credit globally is estimated at \$2.38 trillion (World Economic Forum, 2015). In SSA, the estimated financing gap is roughly \$80-100 billion (IFC, 2010). Furthermore, Peterhoff, Romeo and Calvey (2014), state that SMEs are understood to have significant importance, i.e. more than 60% of overall employment globally and approximately 80% of jobs in the developed economies can be attributed to SMEs.

Banks are perfectly placed to start providing the SME segment with greater value added services that address their needs. Especially if they are able to capture these needs better and provide innovative solutions for them. In addition, the SME market also offers banks the opportunity to link personal and business wealth (Bloomquist, 1998). Undertaking the above in a cost-effective manner is imperative for the banks long term profitability (Accenture, 2016).

SMEs according to Peterhoff et al. (2014), need financial services and products throughout their developmental lifecycle, from start-up phase and well into their growth investment phase. However, Tornes et al. (2016) maintain that commercial banks risk complacency and miss opportunities to grow their SME portfolios. The authors further argue that banks need to cultivate more proficient business models to serve small businesses and more sophisticated propositions for medium sized businesses. Such an approach will solidify the SME segment as a potentially high profitable market. This will furthermore assert its position as a key segment for banks, regulators and National Governments moving forward.

Notwithstanding the acknowledged significance of this segment, only a few banks are actually succeeding in doing what it takes to effectively penetrate the SME segment and unlock its profit potential. Research by Boston Consulting Group (2016) indicates

that the banking sector continues to perceive the market as risky, unprofitable and costly to serve, rather than an attractive market. Considering the degree of competition in this market segment, continuous underserving by banks will result in SMEs turning to non-banks to access loans, facilitate payments and manage foreign exchange transactions (PWC, 2015).

Accenture (2016) maintains that if banks continue to focus on cost alone, they are limiting their earning potential in this market segment. The Boston Consulting Group (2016) also argues that it is vital that banks don't focus excessively on lending activities alone, as roughly 50% of SMEs require no or minimal lending. This is further reinforced by Vyas, Raitani, Roy and Jain (2015) who argue that advances are often not the chief driver of SME banking profitability and warn that lending however, can be used as a tool to attract and retain customers. Approximately between 24-30% of formal SMEs in emerging economies do not have a deposit account, their un-intermediated cash balances represents roughly \$150-180 billion (IFC, 2010). This indicates the transactional and deposits opportunity embedded within this segment.

According to Accenture (2011), if banks expand their focus to include value, they immediately become leading challengers for the billions of revenue embedded within the SME market. Their research also argues that an advanced client-centric strategy would unearth the revenue potential embedded in the sector. Such an approach would involve deviating from a product-push to a customer-pull strategy. A client-centric strategy is a way of banking based on trust and fairness that uses knowledge of the customer to meet their needs and achieve sustainable, valuable, long term relationships (The Boston Consulting Group, 2012:2). Customer-pull is whereby demand is created from the customers, with them subsequently requesting the financial products and services, which is fundamentally what client-centricity aims to achieve. On the other hand, a product-push strategy is whereby the bank creates products and/or services and subsequently makes them available to customers. Leveraging their network to deliver services that the SME customer needs through a client centric approach, banks will migrate from being solely a financial services provider to being a business partner (Accenture, 2016). The above arguments are also supported by recent research by Accenture showing that 31% of SMEs are seeking closer engagement from their bank for proactive ideas and financial and non-financial assistance. Another 26% want their bank to offer them more complex services on

demand. The research also found that an additional 63% were open to deeper engagement, while only 37% of businesses want to be left alone, representing a market segment that's ideal for simple, low-cost banking products and services (Accenture, 2016).

Providing banking products and services to this market is economically valuable, due to the sectors importance in almost all economies. Many of the challenges that constrain SME banking profitability are correctable. Nămolosu and Cetină (2014) argue that deliberately increasing service quality is key to winning over the SME market segment. The authors maintain that the focus should be on creating strong long-term business relationships with the SME customer, the loyalty of the most profitable customers being a key success factor. This illustrates that what is key to achieving greater profitability within the segment, is the ability to quickly learn which customers within the SME market should be targeted for retention and cross-selling (Bloomquist, 1998). Furthermore, to capture the full potential of the SME market, the difference between SME and retail customers must be acknowledged (Accenture, 2016).

2.6 CONCEPT OF CUSTOMER RELATIONSHIP MANAGEMENT

According to Hossein, Siadat and Shafahi (2017), Customer Relationship Management (CRM) is a practice and integrated strategy that enables an organization to identify, select, and keep customers through creating and maintaining long term relations with customers. Botha (2012) cites and elaborates that Customer Relationship Management is the maintenance and optimization of mutually beneficial long-term relationships between an organization and its customers. Customer strategy involves scrutinizing the prevailing and potential customer base and identifying which forms of segmentation are most appropriate. As a fragment of this process, the organization has to deliberate the level of subdivision for customer segments, or segment granularity (Payne & Frow, 2005). Customer Relationship Management at a strategic level can be defined as “a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer”. At an operational level, it involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering value, cites (Richards &

Jones, 2008). Wiese (2013), states that the principle of customer management is about finding the right customer, understanding them, growing their value, and retaining their business in the most efficient way through appropriate customer segmentation and service models.

Research by IFC (2012), states that Customer Relationship Management is a value-increasing strategy for both the bank and the customer. It further argues that only through Customer Relationship Management can banks be able to establish a deeper relationship with their customers and to serve them better. Dver and Graber (2003) argued that banks need to break from traditional silos and embrace Customer Relationship Management as the foundation of any plan to increase their revenue from SMEs. Customer-centric orientation has been identified as an important and significant element to winning the SME segment. According to Onyinyechi and Azubike (2016), Customer Relationship Management continues to be a vital issue within the Banking Sector due to its capacity to enhance revenue if given the proper attention it deserves.

On the contrary, according to Vasiliu (2012), the Financial Sector has historically solely focused on product-push strategies that are in conflict with the customer expectations and needs. Wiese (2013) furthermore argues that dynamic organizations understand that through keeping customers satisfied and developing a thorough understanding of their needs plays a pivotal role in running a successful business. According to Dver and Graber (2003), Customer Relationship Management can greatly increase the ability to attract and acquire SME customers. However, being customer-centric often competes with other business orientations namely: product orientation and production and sales orientation (Wiese, 2013). Product orientated businesses believe that a customer chooses a product based on the best quality, performance, design and features. A production orientated business believes that customers will always choose the lowest priced product. On the other hand, sales orientated businesses believe that investing enough money in advertising, selling and public relations will persuade customers to purchase their products (Wiese, 2013).

Figure 2.1 provides a view of an integrated concept of Customer Relationship Management. It illustrates the key elements to a customer-centric approach, its knowledge management (institutionalizing knowledge), market orientation and digital transformation. In addition, it demonstrates that these key elements are responsible

for the organization's performance. This also shows that Customer Relationship Management puts the customer in the centre of all decisions made within a business.



Figure 2.1: The Integrated Concept of Customer Relationship Management

Source: Adapted from Suthinopparrattanakul & U-on (2016)

2.7 CHALLENGES AND KEY FACTORS CONTRIBUTING TO THE PERCEIVED RISKINESS OF THE SME MARKET.

The SME segment is exceedingly complex, it is characterized by a significant number of new businesses that enter on a continuous basis, with an equally high failure rate. According to Matthee and Heymans (2013), SMEs are often perceived to pose a greater risk of default than larger firms and as a result, they are subjected to greater scrutiny by banks. Regardless, SMEs will continue to need financial products and services throughout their lifecycle (Oliver Wyman, 2014).

What then, are the key factors contributing to the perceived riskiness of the market? An SMEs risk management is significantly influenced by the business owners risk perception and their approach towards risk management (Yusuf & Dansu, 2013). According to Verbano and Venturini (2013), the adoption of a risk management strategy and practices is lacking in most SMEs. They also maintain that it is partly because SMEs lack the resources required to respond quickly to both internal and external threats. In most cases, this leads to huge losses that seriously threaten their survival. According to Jayathilake (2012), SMEs often underestimate risks or even ignore them completely, which is why they are often deemed unattractive by banks.

Furthermore, many SMEs lack all-encompassing skills that allow for identification, analyses and control of risk (Yusuf & Dansu, 2013). What then does limited resources and capacity mean for SMEs? Certain risks are felt particularly deeply by them. For example, the more competition an SME encounters, generating sales and meeting financial obligation becomes more difficult. This illustrates that the level of demand for SME products and services has a severe impact on their cash flow and overall business performance (Matthee & Heymans, 2013).

In addition to being inadequately skilled, SMEs have considerable structural risks such as: lack of transparent and standardized information, financial sophistication and reporting capabilities. What the above mentioned issues illustrate is that banks need to assist SMEs to improve their risk management capabilities.

According to the SME Banking Knowledge Guide, from a banking perspective, two classes of risks are embedded within the sector that lead to perceived riskiness namely credit risk and the risk of excessive cost to serve the SME customer (IFC, 2010). The Industry Sector can also be a source of risk for SMEs. For instance,

commodity producers are more susceptible to unpredictable global pricing trends and manufacturers are subject to changeable technical specifications and standards in different export markets. Sometimes this makes efficiency through standardization an elusive goal (Matthee & Heymans, 2013).

In the South African economy, the high failure rate amongst SMEs is a key contributor to the perceived riskiness of the market (Smit, 2012). A significant number of studies have also identified other key factors that influence perceived riskiness of the SME market.

- SMEs success is intertwined with the local economy's performance, consequently economic downturn will lead to SMEs usually experiencing difficulty (Smit, 2012).
- People management problems concerning poor staff planning, cross-functional management, high staff turnover rate, insufficiently trained staff, key person dependency risk, difficulty in recruiting quality employees and low productivity (Smit, 2012).
- Market and customer concentration. SMEs often trade in only one type of product or a large percentage of their sales originate from one or two customers. As a result, if a large order were to be cancelled, it could have catastrophic consequences for the business (Matthee & Heymans, 2013).

The above arguments are also supported by Becchetti, Castelli and Hasan (2009), who highlight that lack of adequate information around investment projects to be undertaken by SMEs also adds to perceived riskiness of the SME market. This includes information around the quality of management making investment decisions. In addition, the authors also highlight hidden information, the lack of or low level of collateral and the lack of any historical or financial track record. Yaakub and Mustafa (2015) argue that the majority of SMEs lack supply chain management skills and knowledge. This is due to their inability to manage risk and social supply chain dynamic contexts. According to Standard Bank, the ability to generate sufficient Operating Cash Flow (OCF) makes SMEs more vulnerable to bankruptcy (Standard Bank 2017). However, a study by Gupta, Gregoriou and Healy (2014), which used substantial amounts of financial information of UK SMEs over the period 2000 to 2009, opposes the view that the OCF information improves the prediction accuracy of a distress prediction model (Bankruptcy). The above findings all reinforce that, due to having

fewer resources and structural features, SMEs are more vulnerable to risk (Verbano & Venturini, 2013).

Mitigating SME specific risks such as competitive market threats and fluctuating demand cannot easily be avoided. SMEs will continually be viewed with more caution by financial institutions in comparison to larger business; it goes with the territory. Through engaging in sound risk mitigation strategies, SMEs will make themselves more attractive to Commercial Banks (Matthee & Heymans, 2013). According to Falkner and Hiebl (2015), stringent risk management processes could enable SMEs to cope with risks better.

The ability of Commercial Banks to effectively deal with these unique risks and challenges will allow them to unlock the revenue potential embedded in this market segment. Ganguly, Harreis, Margolis and Rowshankish (2017) state that digital ecosystem risk management could leverage out digital draws on big data, advanced analytics and machine-learning tools. This would increase the accuracy of credit risk models used for credit approvals, portfolio monitoring, and workouts. Accenture (2011) mentions that risk in SME banking is driven by high volatility and churn in the market, so banks need to use more advanced segmentation and risk analytics to ensure they offer differentiated services to the right customers.

According to McKinsey & Company (2012), managing risk innovatively is key to unlocking the revenue potential embedded in the SME market. The report argues that a people intensive credit risk management approach is costly and that banks should develop new and innovative ways to assess credit and all supplementary credit processes (loan origination, underwriting, monitoring and collections). For example, in origination a significant challenge is limiting or even eliminating client fraud using pre-defined fraud criteria. Through streamlining their origination processes, residual fraud risk can then be priced in, preferably using the probability of fraud for a particular customer.

According to IFC (2011), another challenge is that banks still utilize corporate policies and procedures when analyzing SME advances. Considering the maturity level of a growing SME, such an approach is not appropriate. Such credit methodologies disadvantage SMEs and as a result they struggle to meet the bank requirements. This is often inconsistent with the bank's business strategy objective of growing their SME

portfolios. It then follows that appropriate credit policy adjustment is needed to ensure alignment between business strategy and the banks risk appetite.

To recapitulate, structural disadvantages emanating from low margins inherent to the small size and the heterogeneous nature of SMEs undercut the profitability of SME interrelated market transactions (OECD, 2015). However, in order to remain competitive, the Commercial Banking Sector must commit to transforming themselves into fully-digitalized businesses to overcome some of the challenges linked to servicing the SME segment. Digital disruption will take place whether or not banks are fully ready (Baumgärtner et al., 2017).

2.8 REVOLUTIONIZING THE SME BANKING EXPERIENCE

2.8.1 Competitive challenges

It has been projected that legacy financial institutions will see profits decline by between 20–60% by 2025 if they fail to evolve digitally (Harvard Business Review, 2017). According to (Baumgärtner et al., 2017; Halliday & Schwarz ,2017), financial institutions globally are facing increasing competition, declining revenues, surging regulatory costs, spiking loan losses and expanding capital requirements. Internal and external forces are necessitating banks to re-evaluate the sustainability and cost efficiency of their service models and risk management practices (Bahillo, Ganguly & Kristensen, 2016). Such re-evaluation will necessitate changes with regards to the manner operations are being reconfigured, which will consequently impact upon how the relationship between banks and SMEs are managed. Furthermore, disturbances in banking are pushing banks to make more unambiguous strategy decisions, in order to meet the evolving needs of the SME customer (Olsen, Judah, Fielding, Nielsen & Phillips, 2017).

Lundahl, Vegholm and Silver (2009) also maintain that the Bank-SME relationship has historically and consistently demonstrated that SMEs tend to reward banks that are able to meet their needs. According to Ernst & Young (2014), SMEs want their banks to evolve from historical ‘product pushers’ to holistic advisors that can assist in managing and growing their business more than ever.

As a result, Olsen et al., (2017) found that a number of banks have realized that they need a truly differentiated strategy, due to these changing customer needs and sectors. Economics is being put under increasing pressure by new technology and

entrants with disruptive business models. Accenture (2011) states that banks are losing relevance because the needs of the new SME customer are increasingly at odds with traditional sales incentives and service models. Kobler, Bucherer and Schlotmann (2016) also argue that these internal and external forces have meant that all existing business models are under scrutiny, due to new and more types of competitors and solutions arising in all major banking functions as a result of technological advancements. Additionally, banks are facing several other challenges including a low-interest rate environment and moderate economic growth (Tornes et al., 2016).

According to McKinsey & Company (2017), the advantages of physical distribution are costly and are slowly eroding. As a result, many Fin-tech companies have up to a 4% cost advantage over banks. These businesses have therefore passed on these significant cost benefits to their customers. Kobler, Bucherer and Schlotmann (2016) also argue that the old-style one-stop banking model is expected to erode even further. The authors further highlight the following;

- Payments disruptors have reduced customer touch points
- Lending and deposits are expected to become more extensively spread across different platforms

Consequently in the process, are expected to reduce the demand for traditional deposit and investment products. According to Ernst & Young (2014), additional competitive challenges in the SME banking space include the following:

- Stressed profitability
- Varied results with present business models
- Changing customer needs
- Lack of trust between banks and the SME customer
- Evolving competitive threats.

Accenture (2016) supports the above viewpoint and also argues that the tipping point in SME Banking is being driven by the below key factors:

- Erosion of credit relationships: SMEs are either using less credit or finding alternative sources.
- New entrants: technology has enabled these entrants to dis-intermediate banks and eat into their revenue

- Regulation: pressure from Governments to lend more and regulators to hold more capital
- Evolving customer needs: customers want more than money from banks.

2.8.2 SME Segmentation

Frei (2008) states that great service companies are almost without exception, very clever about selecting their customers. According to Simona and Luliana (2013), the banking sector has different approaches to customer segmentation. The authors state that their segmentation strategy and process are often based on many criteria. Segmentation is often defined as the process of defining and subdividing a large, homogeneous market, evidence suggesting that segmentation is at the core of a bank's strategy. Bach, Juković, Dumičić and Šarlija (2014) argue that segmentation is about creating customized strategies for a selected segment in order to satisfy customer needs better. According to the World Bank (2015), banking is a mature market, therefore significantly increasing market share is a challenge. The report argues that segmentation will assist in gaining market share by supporting the banks customer targeting strategy through focusing on the relevant customers. The authors of the report further argue that through segmentation analysis, banks will be able to fine tune their strategies, resources, capabilities and processes to meet the specific needs of customers in this segment (World Bank, 2015).

One of the most important business decisions in banking relates to segmentation. Designing buckets of products for specific groups of clients epitomizes the modern approach to banking (Bach et al., 2014). According to Winkler (2011), the heterogeneous nature of SMEs necessitates clarity on segmentation, channels and services in order to be successful at providing financial services. The purpose of segmentation in this context is to solve the conundrum on how to run SME banking more efficiently and profitably. Dver and Graber (2003) argue that by understanding segmentation and the life cycle of SMEs, specifically around how a business generally grows from an idea to a mature company, is key to winning the market.

The World Bank (2015) states some core objectives of segmentation as follows:

- Profit optimization for each segment
- Monitoring of customers in order to provide them with the most suitable value offer

- Encouraging customers to grow in order to increase profitability through moving up the segmentation ladder.

Lundahl, Vegholm and Silver (2009) argue that most SMEs want their banks to treat them uniquely or that they are at least viewed as unique. This again highlights why the ability to segment them appropriately is crucial to capturing the revenue potential embedded within the market. This shows again that it is imperative to acknowledge the heterogeneous nature of the SME segment, because they range enormously in scale and ambition, from fast growth to stable (Accenture, 2016). Lundahl, Vegholm and Silver (2009) further argue that SMEs do not appreciate being treated in a homogenous way. Silva and Ward (2015) maintain that to take full advantage of the SME opportunity, challengers need to target specific segments within the SME market and offer differentiated propositions. Accenture (2011) in addition highlights customer centricity as being pivotal to pursuing the SME opportunity.

Atterton, Bennett and Chembe (2016) argue that to be successful, establishing a dedicated SME Banking Department reporting directly to the CEO is essential. The authors further argue that the SME segment should no longer be included within retail banking or side-lined in the Commercial Banking environments. A view also supported by Winkler (2011), who argues that considering SMEs significance to the overall global economy, banks should have well-developed approaches to SME segmentation, beyond just grouping the segment into retail, or corporate or both. According to de la Torre, Martínez Pería and Schmukler (2010), SMEs should also be separated from the micro-enterprise business, which banks tend to house either as a unit on its own or as part of the consumer lending unit. Baumgärtner et al. (2017) further highlight that the SME banking sector encompasses diverse segments within and across regions, each with varying business and economic dynamics.

According to the World Bank (2015), banks need to break down total market demand into segments and choose those that they are best equipped to serve. As the designated segmentation scheme, it will have implications across the organization with regards to distribution methods, skills, resources and capital deployment. While also driving the strategic deliberation around how the segments value propositions are designed and then incorporated into bank specific business objectives and targets on profitability and expansions or retrenchment for each segment (Tornes et al., 2016).

The traditional approach to segmenting the SME market is mainly based on the criterion of size, measured in terms of income and the number of employees. Bach et al., (2014) suggest that a different approach be taken. The authors advise that business customer data that encompass the below mentioned should be used as a basis for segmentation and then supplemented with data mining techniques, such as cluster analysis, which are able to find segments that have previously been disregarded :

- Business customer behaviour, which would encompass decision maker characteristics
- Client characteristics
- Operating criterion,
- Supply management criterion
- Situational criterion

According to Berman, Davidson, Ikeda, Korsten and Marshall (2016), more than two-thirds of all CEOs also anticipate adopting a more individualized approach to customers that entails acquiring a much better understanding of their needs and attributes. The authors also argue that it is impossible to personalize products, services or experiences if the customer's core values and circumstances are not well understood. Accenture (2016) recommends another approach, which is also a deviation from segmenting the SME market based on revenue to a basis on their behaviour and needs. (IFC, 2010) also reinforces that banks must become proficient at segmenting by customer type and value to the bank in order to maximize service quality and cost-effectiveness. According to Tornes et al., (2016), another segmentation scheme that can be utilized is to segment by financial behaviour into deposits focused vs. transactions focused vs loans focused. The authors further warn that a broad-based portfolio, covering multiple segments with a full product offering, is increasing vulnerability to digital competitors pursuing slices of the market.

A deliberate segmentation scheme is essential if the objective of significantly increasing both the revenue and customer satisfaction level is to be achieved by banks, maintains Simona-Mihaela (2014).Frei (2008) advocates that it is important therefore to identify customer segments in terms of customer attributes. Frei (2008) also argues that such a segmentation approach will find populations of customers who

share a notion of what constitutes excellent service. Such an approach will differ from the traditional psychographic segmentation and further improves upon the ability to unlock the revenue embedded with the SME segment.

To recapitulate, a deliberate pragmatic segmentation of customers, such as advanced segmentation begins with making choices around whether to follow tailor-made strategies and value propositions for certain or all segments or alternatively applying a single suite of products to all customers (Tornes et al., 2016). Ernst and Young (2014) maintain that innovative methods to segmentation will enable banks to understand comprehensibly the nature and complexity of the various customer types, while also enabling a more precise assessment of the customer's value to the bank. Furthermore, Silva and Ward (2015) argue that the size of the overall opportunity suggest that there are sub-segments within the SME market large enough to warrant developing a differentiated banking proposition. The authors maintain that such sub-segments could encompass value-based segmentation, which looks at a group of customers in terms of the revenue they generate and the cost of launching and maintaining relationships profitably.

According to Tornes et al. (2016), new approaches to segmentation will also result in a better understanding of a customer's value to the bank. Traditionally, costs have been spread evenly across the total customer base in spite of the disparity in the revenues customers provide. Bennett, Richardson and Nyauncho (2015) also argue that banks need to examine their SME customer groups and determine those that will be served by either a 'portfolio management' approach or a 'relationship management' approach.

The Boston Consulting Group (2016) asserts that banks must do a better job segmenting their customer base by value in order to know who their most and least profitable clients are and then tailor make services to those tiers accordingly. The authors also maintain that matching a customer with the correct service channels requires an understanding of their needs and their current financial position and potential. According to Sebag-Montefiore, Cory, Bryan, Mannberg and Alhanko (2014), banks should look for ways to use digital innovation to support SMEs in their own business activities, through assisting them in solving their day-to-day problems and helping them acquire and retain more customers. Table 2.4 overlays product

categories for the different segments to understand what offers will appeal to which SME sub-segment.

Table 2.4: A framework for meeting SME Banking

Business size	Medium (50-150 employees)	Supplementary products, such as outsourcing payroll	Tenured loans, M&A services, tailored credit product solutions, transactional and deposit products with differentiated pricing	Cross-border banking, hedging products
	Small (10-50 employees)	Additional credit products, term deposits transactional and deposit products with differentiated pricing		Cash management services, letters of credit, bonding and insurance, letters of guarantee, lines of credit
	Micro (5-10 employees)		Leasing, mutual fund or investment products, ancillary services and products such as insurance	
	Family (fewer than 5 employees)	Simple deposit products, credit cards, overdrafts		
		Transactions only	Transactions and loans	Transactions, current assets, and long-term financing
Product usage				

Source: Winkler (2011)

Table 2.4 illustrates the point where retail products end and the Commercial Banking products start. The bottom-most part of the framework houses products for the retail client. As you move up from the bottom of the framework, the products are more tailor-made for the individual SME and bear a resemblance to Commercial Banking products.

Table 2.5 Segmenting the SME Market

Segmenting the SME Market	
Segment	Potential advice and support
Start-ups	Low intensity
Lifestyles	Low intensity
Growth	High intensity
Steady -state	Medium intensity
Corporate growth	High intensity

Source: adapted from Blackburn (2012)

Table 2.5 above demonstrates the level of intensity across a service delivery model to indicate areas where a bank would want to provide more in-depth services levels. The rationale for this tactical positioning is due to limited resource availability, reluctance of some business clusters (e.g. lifestyle) to seek advice and support, and the ability to manage the expectations of sub-clusters (Blackburn, 2012). When segmenting the SME market, caution should be taken not to be too rigid.

2.8.3 SME Service Models

According to Ernst and Young (2014), globally SME customers are dissatisfied with the current front-office service model; additionally they are under pressure to increase revenues and profitability. Vyas, Raitani, Roy and Jain (2015) argue that operational factors can be considered as a key contributing factor towards the success of SME banking because of their ability to reduce the cost of serving customers. According to Coretto (2015), SME Banking success is progressively more dependent on a multi-channel customer engagement model. (Ernst & Young, 2014) confirm that many SMEs operate and perform very differently in terms of scope of business, growth potential, product needs, risk appetite, and customer needs.

According to Frei (2008), service excellence can be defined as what a business chooses to do well. This statement alludes to the fact that service will be key to unlocking the revenue potential embedded with the sector. According to Sangeetha and Mahalinga (2011), service quality is a critical measurement of organizational performance and should continue to capture the attention of the Banking Sector. The authors argue that this is due to the environment becoming progressively more competitive. According to a recent Harvard Business Review (2017), research titled

“What Africa’s Banking Industry Needs to Do to Survive”, banking across Africa is being redesigned. However, nothing has changed in most African Banks in terms of structure, despite the avalanche of transformations in the markets. The research argues that technology has emerged as a competitive weapon in driving both superior service quality and operational excellence within the continent.

Stamenkov and Dika (2015) argue that what’s critical to the long term success of the banking sector is a business strategy guided by constant service quality. The authors further argue that service leadership can be established by SME banking through regular delivery of superior service. Frei (2008) argues that a challenge within a service business begins with the design. According to the author, service model design should be configured to effectively meet the needs and desires of an attractive and profitable group of customers. According to Nămolosu and Cetină (2014), an SME service model entails the presence of the customer, in person with the service provider or even by self-service, through other digital banking channels. According to the authors, in SME banking, customer service is typically an essential part of a bank’s customer value proposition. This further illustrates that service plays a substantial role in a bank’s ability to generate income and revenue.

However, success within the SME segment continues to elude a significant number of banks. According to the SME Finance Forum (2017), sustainable profitability within the market segment has proven difficult to achieve for many banks. Ernst and Young (2014) in their research titled “Business banking Redesigning the Front Office”, state that banks will need to revamp their service models with regards to origination and post- acquisition, to align with the changing SME customer needs and growing revenues. In the attempt to effectively serve the SME customer, Djulic, Jecmenica, Kuzman and Udovicki (2017) state that a number of challenges exist. For example, SMEs have unique demands and value personal and attentive service. The authors argue that meeting such customer demands can be costly given the frequency of contact required and the potentially lower revenue earned per client. Nonetheless, Frei (2008) asserts that appreciating the importance of service excellence is still pivotal to profitably serving segments. As a result of the above mentioned, it is vital to discover the relative importance customers place on certain service attributes and then align investment in service excellence with those priorities (Frei, 2008). It is thus evident that financial services businesses need to ask tough questions about the value of

information and interactions. According to Ramdas, Teisberg and Tucker (2012), dramatic changes in the sphere of services execution would be undertaken if banks critically evaluated the cost of interactions.

Understanding that inferior performance in one dimension fuels superior performance in another, is critical to designing an excellent service model (Frei, 2008). Such an appreciation will assist banks in balancing the importance of keeping operating costs down with the risk of under-investing in service. If this is not solved could lead to customer attrition, higher default rates, and lost sales opportunities (Frei, 2008). Bloomquist (1998), argues that the most effective service strategies involve targeting and maintaining the most profitable customers. A research by McKinsey & Company (2012) emphasizes that when balancing serving priorities, relative importance should be given to the needs of customers. Research further states that given the low level revenue per SME customer, banks need to find a highly efficient and innovative way to service them. Key elements of such a new paradigm will require bold new thinking regarding both remote and physical distribution channels, product design and staff deployment.

In the sphere of service delivery, according to Baumgärtner et al (2017), banking executives face an urgent need to radically optimize performance and commit to a continuous digital transformation. Westerman, Calmédjane, Bonnet, Ferraris and McAfee (2011:5), describe digital transformation as “the use of technology to radically improve performance or reach of enterprises”. While Tolboom (2016), highlights that digital transformation does not entail gradual incremental changes, but fundamental radical changes due to digital technologies. However, according to Charley (2017), when most banks refer to digital transformation, they are in fact actually undertaking digital enablement, which is simply using digital technologies to do what is being done, but slightly better. The author argues that transformation is about fundamental change and that banks that are truly undertaking digital transformation should reimagine both their business and service models.

Sebag-Montefiore, Cory, Bryan, Mannberg & Alhanko (2014) also argue that digital innovation is changing old-fashioned SME banking. They further expand the SME service delivery debate by stating that SME owners are more demanding due to the experience they are currently experiencing as consumers in banking and as a result, expect more from their business banking. According to Carey and Kerstein (2013),

when making a decision to either buy a product or service, SMEs generally do so in their own preferred buy channel. A buying channel is the channel the SME feels most comfortable with. The authors also argue that the customer's channel choices will not necessarily always make logical sense, however, going against their buying channel would be at the bank's own disadvantage. In a service business, management must therefore give careful thought to how service excellence will be paid for, charging the customer in a palatable manner is pivotal (Frei, 2008). In order to charge the SME customer in a palatable way, it must be considered that interactions between providers and customers can be configured in a number of ways.

Ramdas, Teisberg and Tucker (2012) argue that the most effective structures depend on whether the value of the customer to the bank either increases or decreases with each interaction. On the other hand, Martin (2013) agrees that through maximizing sales and service productivity by means of lowering the cost of sales and increasing revenue also reduces the cost to serve the SME market. Ramdas, Teisberg and Tucker (2012) further argue that a one-on-one service delivery should be re-examined. While Coretto (2015), to a degree collaborates with this view by stating that a substitute for the high-touch relationship model, common in middle-market Commercial Banking, is required.

The cost implications of interactions are well documented, nevertheless numerous business leaders consider field service and sales models (high-touch) as being superior to inside service and sales models (low-touch). Nonetheless, according to Martin (2013), the above historical outlook is being offset by the evolving nature of how customers consume goods. Central to this evolving nature is digital technology, which is transforming not only the delivery of financial products but the use of data in banking. According to Sebag-Montefiore et al., (2014), digital technology has the potential to reduce operating costs dramatically while improving customer targeting and customer service.

To recapitulate, in redesigning the service model, banks must focus on increasing customer satisfaction, retention and profitability, instead of focusing only on operational efficiency (Ernst & Young, 2014). According to Frei (2008), if the above is to be achieved, then a situation in which customers prefer 'do-it-yourself' capabilities over a readily available full-service alternative is vital. The author argues that banks should set themselves the challenge of creating self-service capabilities that

customers will welcome. Modern best-in-class service models will drive differentiation in a very competitive marketplace while delivering improved return on investment from capital-intensive resources (Ernst & Young, 2014).

Figure 2.2 below indicates that an appropriate service model driven by a specific segmentation of the SME market will reduce cost to serve whilst also maximizing revenue.

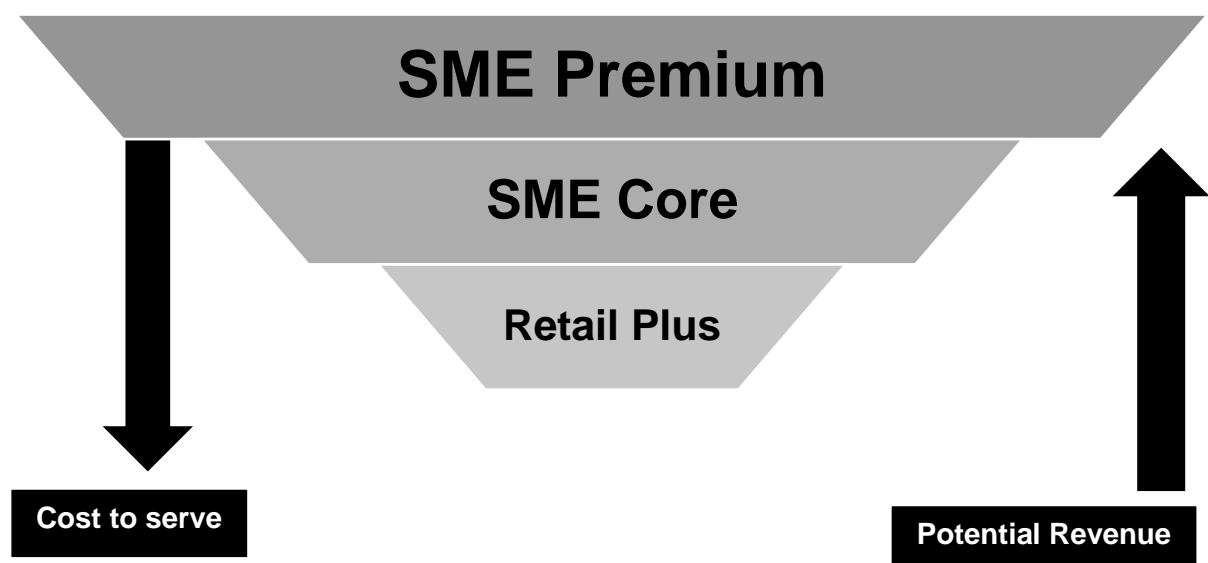


Figure 2.2: SME Banking Segmentation Hierarchy

Source: adapted from Ernst and Young (2014)

Figure 2.2 illustrates that physical distribution is still relevant but far less important. From the figure, it is evident that a dynamic approach to physical distribution is vital to reducing the cost to serve. This collaborates with a McKinsey & Company (2017), whose research view that banks need to learn to deliver services with a compelling design and a seamless unconventional customer experience. A position also supported by Frei, (2008), who also contends that in today's service economy, it is nearly impossible to design a service model to cover a wide range of customers and remain competitive across all of them. The author further states that businesses should design their service models in a manner that allows each specific segment of customers to receive their own targeted service excellence value proposition. The above demonstrates that the ability to identify customers that have the interest and authority to purchase products and services will be essential to winning the SME

segment. An SME banking segmentation hierarchy will pursue multiple niches with an optimized service model, each designed to achieve excellence on some dimension at the expense of inferior performance on others, making profitability serving SMEs a possibility (Frei, 2008).

To conclude, as the impact of the above challenges are being felt on the bottom line, if the current service models are not amended accordingly, the heterogeneous nature of the SME segment will continue to cause banks to struggle to serve this particular business segment effectively.

2.8.4 SME Relationship Managers

According to Atterton, Bennett and Chembe (2016), the role of the SME relationship manager is to establish and maintain long-term 'relationships of value' with a predetermined group of SMEs. The authors argue that such a relationship should be based upon trust, transparency, and respect. Management of commercial risk and maximizing economic benefit for both parties should be central to the relationship. Lundahl, Vegholm and Silver (2009) allude to the fact that businesses do not appreciate doing business with relationship managers who are more focused on selling their bank's products. Vasiliu's (2012) research argues that in sales, the relationship between Customer and Relationship Manager is crucial to customer relationship management. As a consequence, the problem of assigning sales teams to sales opportunities is a critical management task for maximizing revenue and profit (Kawas, Squillante, Subramanian & Varshney, 2013). Accenture (2016) in their research also found that SMEs favour assisted human interaction over self-service when transacting with banks, which further illustrates that the relationship manager continues to be an extremely important point of contact.

In addition, Gupta (2016) suggests that the collaborative nature of service delivery places relationship managers in a very critical role in the delivery of quality services. The author's research further proclaims that employees are the "service" and "the organization". This provides evidence that it is essential for the banks to manage their relationship manager's sales-force effectively. It is the channel by which revenue is earned and constitutes a considerable portion of the selling and administrative expenditures (Kawas, Squillante, Subramanian & Varshney, 2013).

As a result of the above, it then follows that relationship managers should possess certain qualities that potentiate success in the sale of banking products (Vasiliu, 2012). According to Kawas, Squillante, Subramanian and Varshney (2013,) focus should be given to relationship managers because of their direct influence on bottom-line profit. The above also clearly highlights a point put forward by Winkler, (2011), that globally, the SME customer is likely to select a bank that treats them more than just a mass customer. Yet again, this demonstrates that profitability and the market share growth within the SME segment is firmly connected to the expertise of the relationship manager (Nămolosu & Cetină, 2014).

However Winkler (2011) alluded that it is neither economical nor best practise to give everyone a relationship manager. In addition, Tornes et al., (2016), state that as much as relationship managers are critical for realizing the full profit potential of the SME segment, they are often overwhelmed by the huge variety of customers and products. While Silva and Ward (2015), maintain that SME banking relationship management continue to be primarily organized along a geographical basis rather than industry sector or business life stage. This, according to the authors isn't optimal. Richardson and Nyauncho (2015) also argue that even good relationship managers are frequently incapable to acquit themselves effectively, in the eyes of the customer, due to the internal processes (Bennett, Richardson & Nyauncho, 2015). Atterton, Bennett and Chembe (2016) acknowledge the fact that many career relationship managers use SME banking as a ladder into commercial and corporate banking. The authors highlight that a significant number of banks tend to promote their better SME relationship managers to Commercial and Corporate Banking roles rapidly rather than retaining and promoting them into higher ranking SME banking roles. According to Atterton et al (2016), this is a contributor to the inability to unlock the revenue potential embedded within the segment.

These factors will then effectively assist relationship managers in maximizing the revenue potential embedded within the SME segment? According to Nămolosu & Cetină (2014), the competency of the relationship manager can be enhanced through improving product knowledge, understanding the SME's business better by correctly recognizing their needs and through the ability to interpret financial indicators well.

According to a recent Accenture (2016) research report, a new paradigm on relationship manager's productivity centred on institutionalizing knowledge will aid in

unlocking the revenue potential embedded in the market. Central to the research is the use of institutional knowledge, which can be leveraged to assist junior relationship managers in becoming more credible when placed in front of the SME customer. Such an approach according to the authors of the research will enrich the current product push approach to a more solutions based sales approach, through the leveraging of institutional diagnostic tools. Another Accenture (2011), research report states that SME customer needs have evolved, and that relationship managers need to offer their customer's a different type of relationship, which is underpinned by sound trustworthy advice on a range of business issues in addition to products and services.

This strongly highlights that the success of persuading the customer to buy banking products and services is correlated to the soft-skills of the relationship manager, coupled with their knowledge of the products and internal procedures (Nămolosu & Cetină, 2014). A position supported by Gupta (2016), who states that research on service encounters show that events which delight customers are strongly associated with the extra behavioural efforts of service personnel, in this case relationship managers.

According to Wavestone (2016), it is time banks use digital transformation to integrate relationship managers in this in-depth revolution. The author argues that banks have to position their relationship managers at the heart of their relationship with customers. Wavestone (2016) also argues that technology is a prerequisite for any successful relationship with the customer. Furthermore, the author maintains that an area in which technology will play a major role is in the preparation and the follow-up of interviews with the SME customer. Infosys (2017) mentions that enabling remote virtual relationship managers would help banks enhance their responsiveness to SMEs needs and also to assist in reducing the cost to serve.

It cannot be over-emphasized that the SME market offers a significant opportunity to retain customers by re-inventing old-fashioned relationship banking. Through a more strategic and structured use of relationship managers, banks will address the above challenges while also supporting retention efforts considering the pool of good relationship managers is in dearth . According to Ernst and Young (2014), such reconfiguration will give relationship managers more time to focus on higher-value activities, while also providing them with a better defined role and career. Digital

relationship management, which is about fusing physical and digital tools to drive more effective relationships, is key to winning the SME banking market.

2.8.5 SME Ecosystems in Banking

Bloomquist (1998) alluded in the late 90's that the rapid growth of computer and telecommunications technology will be the most profound development in banking. This would be a development which will increase competitive pressures in the Financial Services Industry. The rapid pace of disruption in banking and payments presently is evidence of that. This digital evolution has led to innovative non-banking customer experience ecosystems, with banks largely serving a utility function. Grover (2017) argues that banks stand to lose the all-important customer engagement layer entirely unless they re-insert themselves into the customer experience. Considering Banks typically serve the top 5-10% of companies in its portfolio and the rest of the 90-95% companies are being served with basic transaction services. Under-penetration currently stands at roughly 90-95%, representing a big untapped opportunity both for banks and Fin-Techs (Deutsche Bank, 2015). Vyas, Raitani, Roy and Jain (2015) argue that lack of appropriate technology and skilled staff are key challenges to serving SME's effectively. The authors also argue that the use of digital ecosystems is key to unlocking the above mentioned potential.

A digital ecosystem is different from the Omni channel that banks normally deploy to service SME customers. Omni channel businesses provide customers access to their products across multiple channels, including physical and digital channels, giving them greater choice and a seamless experience (Weill & Woerner, 2015).

On the other hand, a digital ecosystem according to Thompson (2008) is digital infrastructure aimed at creating a digital environment for the following:

- Networked businesses: supporting cooperation and knowledge sharing
- Evolutionary business models

According to Davidson, Harmer and Marshall (2015), a digital ecosystem is a complex web of interdependent businesses and relationships which both create and allocate business value.

According to the authors, through such an approach, businesses are able to create more value within the ecosystem by acting together than they could from acting alone.

A digital ecosystem is a unique value proposition, that is, they add mutual value because the sum of the individual parts are lesser than the whole. In addition, ecosystems businesses operate out of mutual self-interest, rather than just individual self-interest. The strengths of digital ecosystems is that they have strong market positions and that their business models are often accompanied by strong sales and earnings growth, which enables them to speed up the process of unlocking revenue entrenched within the ecosystem (Grover, 2017). According to the Harvard Business Review (2017), innovation in financial services will happen in part through the diffusion of new revenue models and technologies, combining entrepreneurial ideas with institutional and operational expertise.

Figure 2.3 below provides a view of a digital ecosystem. It mirrors the complexity and mutual dependencies that exist, from individuals and SME producers through to multinational businesses. All these different types of enterprises have different banking needs, but through the banks taking a holistic approach to providing liquidity, managing risk and enabling transactions, the ecosystem becomes more resilient and financially efficient, and is well positioned for growth.

BANKING ECOSYSTEM

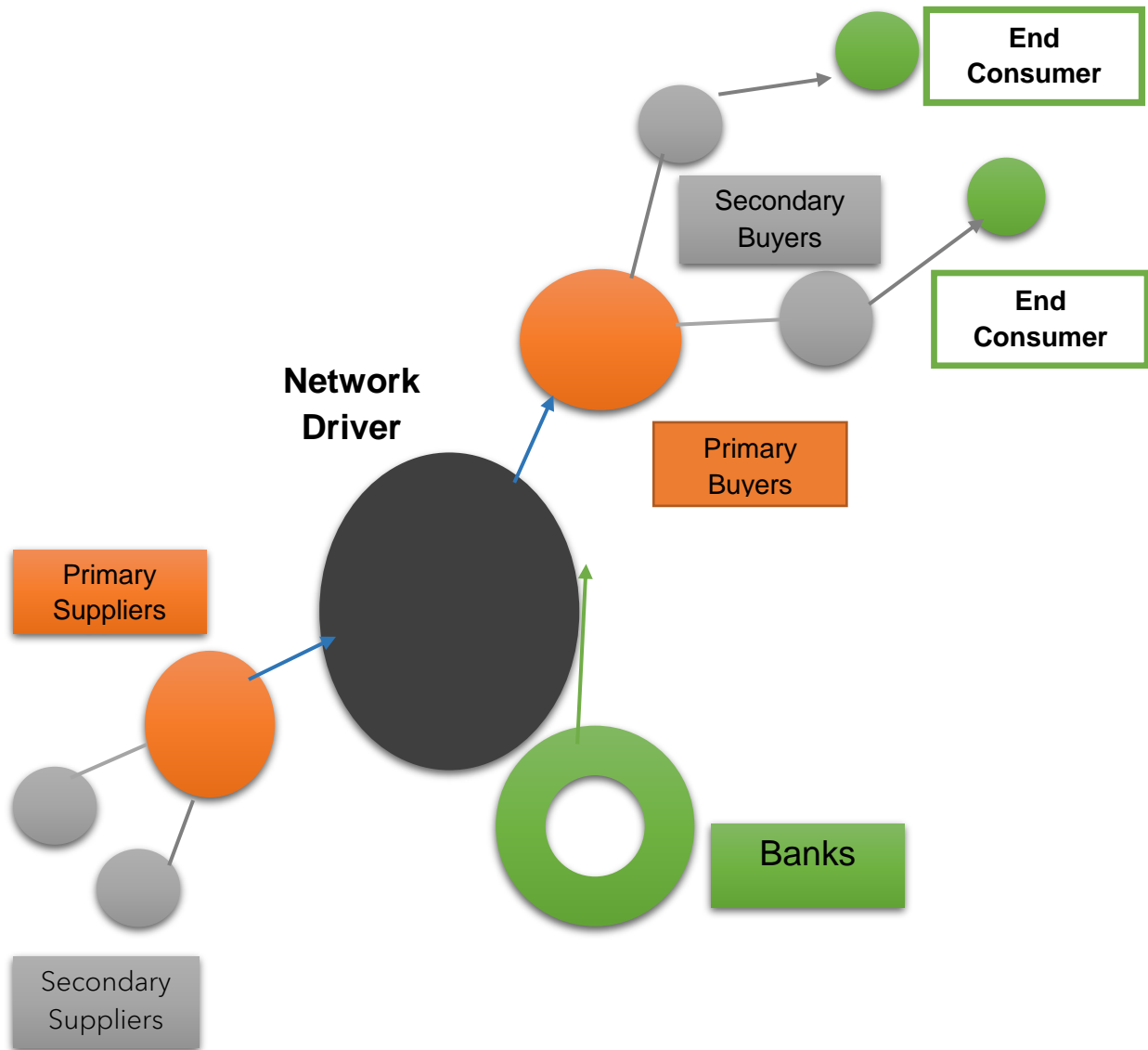


Figure 2.3: Banking the Ecosystem Model

Source: Adapted from Manson (2016)

Against the backdrop of emerging digital ecosystems and their successful enclosed strategies, the financial industry would be well advised not only to keep an eye on the big internet firms, but also to see how their proven strategies can also be implemented within the Banking Sector, this is according to Deutsche Bank (2015). According to Baumgärtner et al. (2017), ecosystem enabled business models have already

redefined the movement of data and money. According to the authors, in banking, the economics of Commercial Banking business models have changed. Stollmann (2017) argues that traditional Commercial Banks have not served the SME community well. The author further maintains that a new banking ecosystem would assist banks in serving the SME community better through delivering solutions that will allow SMEs to compete better in business. In their research titled “Banks’ small business imperative: New strategies for offering digital services for SMEs”, PWC (2017) acknowledges the above statement. This encourages banks to look beyond the traditional banking services such as cash management and financing. Lindstrand and Lindbergh (2011) also argue that banks should be co-creators of value by utilizing their business network to link together different actors who want to be co-dependent. Accenture (2017) in their report titled "Unlocking £8.5 billion in new revenue from SME customers," broadens the ecosystem consideration and states that banks should consider an ecosystem approach in meeting the hugely varied needs of the SME customer. The report also argues that banks should partner with established technology providers and Fin-Tech organizations. Another Accenture (2016) research report suggests that banks should be thinking of providing adjacent services to SMEs , such as creating e-shops, undertaking payroll processing, and offering access to networking opportunities and communities as an extension to the business ecosystem approach. Grover (2017) states that banks are in a position to greatly improve upon their existing business model, if they can gear up to providing integrated customer experiences.

According to the author, following such a path would assist banks in reclaiming their relevance in the digital era. Gupta (2016) also suggests that banks can provide SMEs business growth platforms and not just financial transactional services. Gupta (2016) argues that this can be done through leveraging the intra and inter SME banking network. By building a digital SME ecosystem which could serve as a way of increasing penetration into this underserved segment. According to Grover (2017), banks can orchestrate and field transactions across various industries that customers interact with. This can then be used to derive insights that can assist SME customers in achieving overall financial wellness.

In a financial services ecosystem of the future, businesses are likely to engage in specialized functions within a tightly orchestrated network (Davidson, Harmer & Marshall, 2015). According to Vyas, Raitani, Roy and Jain (2015), this will necessitate

a Fin–Tech partner. Vollmer and Egol (2014) state that partnerships have always been a critical strategy for businesses looking to grow in unfamiliar markets, to tap into new customer segments, or to sell additional products or services. Business leaders are increasingly acknowledging the importance of focusing on disruptive innovation. According to Berman, Davidson, Ikeda, Korsten and Marshall (2016) it is key that businesses explore opportunities that leverage on emerging technologies and ecosystems in order to bring about an entirely new revenue stream into the business. Digital leaders in many industries are often also platform leaders, whereby Commercial Banks would be able to serve not only the platform leaders but the many individual suppliers and distributors that operate on these platforms if an ecosystem approach is followed (Baumgärtner et al., 2017). Grover (2017) maintains that the future of banking will be centred on being a hub of financial wellness, with digital being central to the internal and external services offered by the hub.

2.9 SUMMARY

Chapter Two outlined the SME landscape; domestically, regionally in Sub-Sahara Africa and globally. Furthermore the challenges, current shortcomings and key factors contributing to the perceived riskiness of SMEs are deliberated upon, in the process emphasizing on research objective, RO1 – to conduct a detailed analysis of the prevalent risk embedded within the SME segment. Additionally, current opportunities within the segment are discussed, emphasizing on the business potential embedded in the SMEs segment of Commercial Banks, the roles of customer relationship management and service models. Emphasizing research objectives RO2- RO3: RO2 – to conduct a detailed analysis of the potential business opportunity embedded within the SME segment and RO3 –to conduct a detailed analysis of various service delivery components within SME Banking. Chapter Three will present a conceptual framework that summarizes the drivers that influence the profitability and the perceived revenue potential of the SME market from a banking perspective which will form the basis for the design of the research

CHAPTER THREE

CONCEPTUAL FRAMEWORK TO UNLOCK THE REVENUE POTENTIAL OF THE SME SEGMENT OF COMMERCIAL BANKS IN SOUTH AFRICA.

3.1 INTRODUCTION

Research question Q4 and research objective O4 are addressed in this Chapter. In Chapter Three, the theory of a conceptual framework in academic research will be described. Thereafter, the conceptual framework to unlock the revenue potential of the SME segments of South African Commercial Banks is presented. This Chapter will also provide a brief description of each variable used in the conceptual framework.

3.2 CONCEPTUAL FRAMEWORK

A conceptual framework refers to a system of ideas, assumptions, expectations, views, and theories that supports and informs one's research. According to Fleury and Tereza Fleury (2007), conceptual frameworks and paradigms are all terms that help to organize thinking and action. Jabareen (2009) defines conceptual frameworks as a network of interlinked concepts that together provide a comprehensive understanding of a phenomenon or phenomena. The author argues that a conceptual framework provides an understanding rather than offering a theoretic justification. Green (2014) cites that a 'conceptual framework' draws on concepts from various theories and findings to guide research. While Lambert (2008), suggests that the goals of a conceptual framework are threefold; primarily, to describe existing practice, furthermore, to prescribe future practice; and lastly, to describe key terms and fundamental issues. This research recognizes conceptual frameworks as the broadest among the aforementioned definitions. In this research, the idea of conceptual framework will play an important part. The structures that constitute a conceptual framework are the arrays in which participant businesses might be classified, whose input will open the type of relationships serviced to them.

3.2.1 Drivers of change

The framework groups the focal drivers of change that were identified in the literature review and led to the research questions. These include macro drivers encouraging change in the global financial sector such as:

The **competitive landscape**: Banks continue to report mixed revenue growth and profitability as a result, of compressed spreads due to low demand and the increased cost of doing business resulting from increased regulations (Ernst & Young ,2014) ;

SMEs dynamic function in South Africa: the development of SMEs is important for addressing many of South Africa's economic problems given the failure of the formal and public sector to absorb the growing number of job seekers in South Africa (Garwe & Fatoki, 2012).For that to happen, the economy will need to be more enabling of business entry and expansion, with an eye to credit and market access (National Planning Commission, 2017); and lastly:

The **revenue entrenched within the sector**: banks are perfectly placed to start providing the SME segment with the greater value adding services that address their needs, especially if they are able to capture their needs better and provide solutions that address these needs. Doing so cost-effectively is imperative for the banks long term profitability (Accenture, 2016).

3.2.2 PROPOSED CONCEPTUAL FRAMEWORK

The conceptual framework in Figure 3.1 was developed from the literature reviewed in Chapter Two and is the foundation for this research. The objective depicted in the framework is to examine the surveyed respondents understanding of key concepts (independent variables) needed to unlock the revenue potential of the SME segment from a service delivery perspective. The dependent variable is the perceived profitability and revenue potential of the SME segment. Eight concepts were used as independent variables. These are concepts that were recognized in the literature review as being vital to banking officials' awareness and perception around changes needed from a service delivery viewpoint to unlock the revenue potential entrenched in the SME segment.

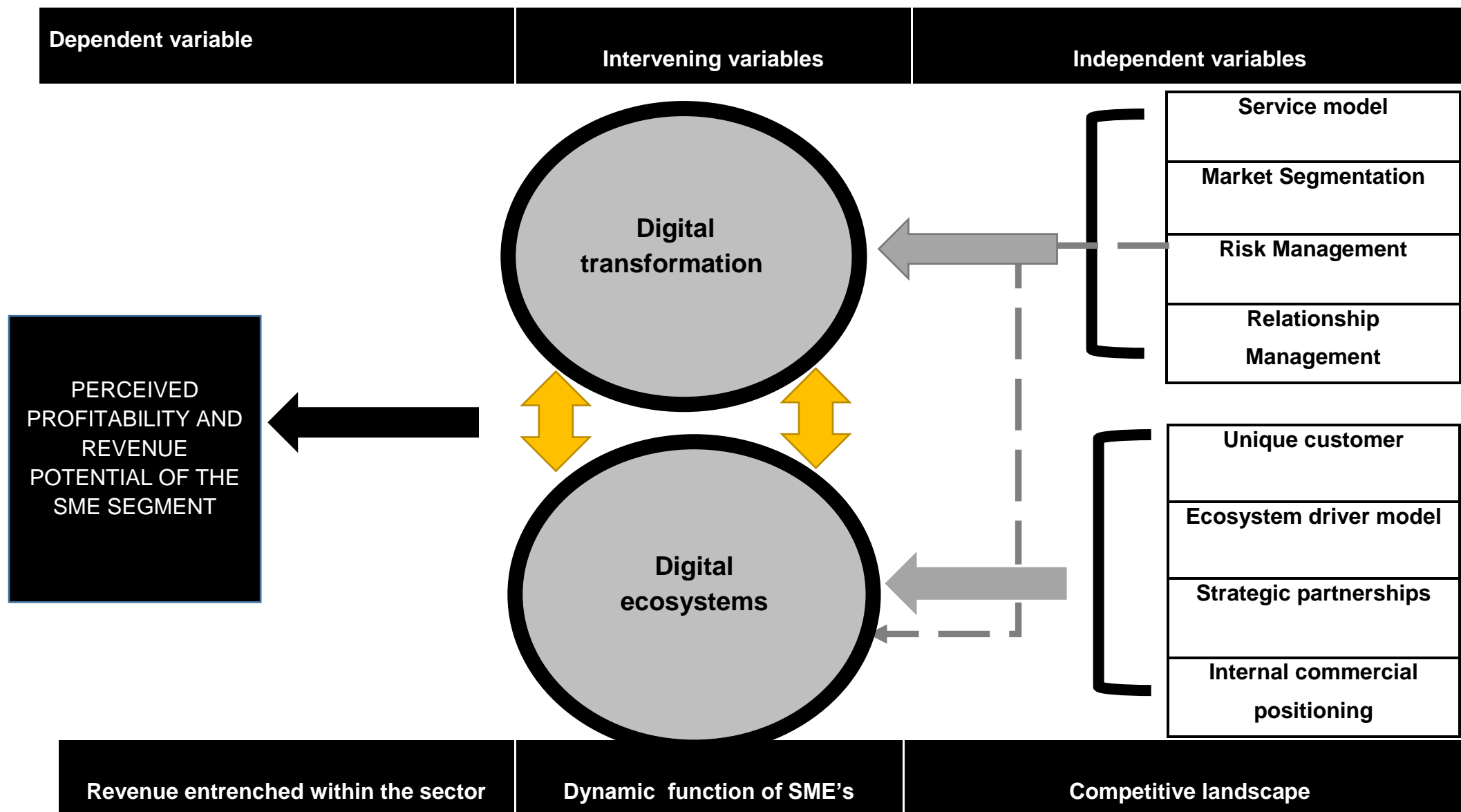


Figure 3.1 Conceptual framework to unlock the revenue potential of the SME segment of commercial banks

Source: Author's own construction

3.3 CONCEPTUAL FRAMEWORK TO UNLOCK THE REVENUE POTENTIAL OF THE SME SEGMENTS OF COMMERCIAL BANKS

3.3.1 Dependent variable: *perceived profitability and revenue potential of the SME segment.*

The objective of this research is to develop a conceptual service delivery framework to unlock the revenue potential of the SME segments of Commercial Banks in South Africa. For this research, an appropriate service delivery model will be defined as adequately matching the diverse portfolio of SME customers with correct service channels based on their needs and current financial position and potential, and doing so profitably.

3.3.2 Intervening variable 1: *digital transformation*

Participants' capability to appreciate digital transformation will influence how the participants perceive the SME segments of Commercial Banks in South Africa to be profitable. Westerman et al. (2011) describe digital transformation as "the use of technology to radically improve performance or reach of enterprises". Considering organisations are under pressure to change in order to meet evolving customer needs and tackle competitive pressures, it is advised that they undergo digital transformation initiatives (Westerman, Calm  jane, Bonnet, Ferraris and McAfee (2011). According to the authors, major digital transformation initiatives should be centred on re-envisioning customer experience, operational processes and business models. Wavestone (2016) states that banks ought to be using digital transformation to integrate relationship managers in this in-depth digital revolution. McKinsey (2017) holds that banks should move quickly to engage with SMEs digitally and amend their existing service delivery models adequately.

All of the above factors have demonstrated that digital transformation will have a direct impact on profitability and revenue unlocking of the SME segment. In this study, the concept of digital transformation is referred to as the use of technology to radically improve the provisioning of services to SME's in a profitable and sustainable manner.

3.3.3 Intervening variable 2: *digital ecosystems*

The participant's capability to appreciate the influence that a digital ecosystem approach will add to SME banking will be a decisive factor in how the participants perceive the profitability and revenue potential entrenched within the SME segment of Commercial Banks in South Africa. According to Davidson, Harmer and Marshall (2015) a digital ecosystem is a complex web of interdependent businesses and relationships which both create and allocate business value. In this study, the concept of a digital ecosystem is referred to as the banks' ability to leverage digital innovation to create a digital platform whereby mutually beneficial business relationships take place between the banks various network of partners and/or customers. This variable refers to the argument put forward by Sebag-Montefiore et al., (2014), who state that banks should be using digital innovation to support SMEs in their own business activities. This is also supported by Stollmann's (2017) statement that a new banking ecosystem would assist banks in serving the SME community better.

3.3.4 Independent variable 1: *Internal commercial positioning*

Winkler (2011) suggests that in considering SMEs significance to the overall economy globally, banks should have well-developed approaches to SMEs. Atterton, Bennett and Chembe (2016) also maintain that in order to unlock the revenue potential within the SME segment, establishing a dedicated SME banking department reporting directly to the CEO is essential. The authors also argue that SME banking should no longer be included within retail banking or side-lined in the Commercial Banking environments. This variable refers to the argument that the manner in which an organization chooses to contest in this hyper-competitive business environment impacts on organizational performance and whether it can successfully grow its market share (Abraham, 2013). Furthermore, to capture the full potential of the SME market, the difference between SME and retail customers must be acknowledged (Accenture (2016). In this study, the concept of internal commercial positioning refers to the positioning of the SME business unit within the bank.

3.3.5 Independent variable 2: *unique customer*

According to Ernst and Young (2014), SMEs want their banks to evolve from product pushers to holistic advisors that can assist them in managing and growing their business. Olsen et al. (2017) state that banks have realized they need a truly

differentiated strategy due to changing SME customer needs. In their research, Ernst and Young (2014) allude to the fact that SMEs operate and perform very differently in terms of scope of business, growth potential, product needs, risk appetite, and customer needs. In Support, Djulic, Jecmenica, Kuzman and Udovicki (2017), proclaim that SMEs have unique demands and value personal and attentive service. In this study, the concept of a unique customer then refers to the acknowledgement that SMEs perform and operate differently in terms of business scope, growth potential, product needs, risk appetite, customer needs and that they are heterogeneous.

3.3.6 Independent variable 3: *market segmentation*

Frei (2008) states that great service companies are, almost without exception, very clever about selecting their customers. Segmentation in banking is one of the most important business decisions, since the practice of designing special groups or baskets of products for special groups of clients is at the root of the modern approach to banking (Bach, Juković, Dumičić & Šarlija, 2014). This variable refers to the argument put forward by Silva and Ward (2015), that the size of the overall SME market opportunity suggests the market is large enough to support a dedicated service delivery channel for a number of sub-segments. They further highlight that the SME banking sector encompasses diverse segments within and across regions, each with varying business and economic dynamics (Baumgärtner et al., 2017).

3.3.7 Independent variable 4: *service model*

Stamenkov and Dika (2015) argue that what is critical to the long term success of the banking sector is a business strategy guided by constant service quality. Vyas, Raitani, Roy and Jain (2015) contend that operational factors can be considered as a key contributing factor towards the success of SME banking because of their ability to reduce the cost of serving customers. As a result, SME banking success is progressively more dependent on a cost effective multi-channel customer engagement model (Coretto, 2015). Baumgärtner et al (2017) state that in the sphere of service delivery, banking executives face an urgent need to radically optimize performance and commit to a continuous digital transformation. Accordingly Djulic, Jecmenica, Kuzman and Udovicki (2017) hold that this is because SMEs have unique demands and value personal and attentive service. This variable also refers to the

argument put forward by Valvano et al. (2016) that banks need to align their service models according to a value-based segmentation approach. In so doing, if customer needs are balanced against the banks economics, then revenue and profitability growth will be achieved. In this study, the concept of service models will refer to the provisioning of constant service quality to the SME customer, in person with the Relationship Manager or even via other digital banking channels.

3.3.8 Independent variable 5: *relationship management*

Gupta (2016:4) suggests that the collaborative nature of service delivery places relationship managers in a very critical role in the delivery of quality services. According to Nămolosu and Cetină (2014), the competency of the relationship manager (confirmed by product knowledge, understanding of clients business and correctly recognizing their needs and financial indicators knowledge), are pivotal to winning in SME banking. Kawas, Squillante, Subramanian and Varshney (2013) argue that focus should be given to relationship managers because of their direct influence on bottom-line profit. However, Winkler (2011) alluded that it is neither economical nor best practice to give everyone a relationship manager. This variable refers to the argument put forward, that given the unique financial requirements of SMEs, banks have to evolve from “product pushers” to holistic advisors that can help manage and grow their business (Ernst & Young, 2014).

3.3.9 Independent variable 6: *risk management*

SMEs risk management is significantly influenced by the business owners risk perception and their approach towards risk management (Yusuf & Dansu, 2013). According to a McKinsey & Company (2012), managing risk innovatively is key to unlocking the revenue potential embedded in the SME market. Many banks are still reviewing SMEs under Retail or Commercial Bank loan criteria because a comparative underwriting policy for SME loans does not exist (Mancini, Yee & Jain, 2008). Relationship banking continues to be the predominant approach, although less biased lending approaches such as credit scoring and risk-based lending would be more suitable. Additionally, banks are ideally suited to assist SMEs in managing their risks if they adopt an ecosystem approach to SME banking. For example, by giving SMEs access to the network of businesses that the banks provide services to, will open new

markets for SMEs and to a degree, new opportunities to increase their revenues. This will in turn, reduce the degree of credit risk within the SME banking segment.

In this study, the concept of risk management refers to the process of identifying, assessing and controlling threats to the banks revenue and profitability, with emphasis to credit risk and SMEs customers risk management practices. In addition risk management by the SME is also considered.

3.3.10 Independent variable 7: *ecosystem driver model*

Gupta (2016) suggests banks can provide SMEs with a business growth platform and not just a financial transaction service by leveraging the intra and inter banking SME network. In this study, the concept of an ecosystem driver model refers to the process of providing a business platform for participant SMEs to conduct business. This variable refers to the argument Leavy (2015) puts forward that only through value adding processes can competitive advantage be gained. This is further supported by Dawar (2013:101), who also argues that sustainable competitive advantages can only be derived from downstream activities rather than upstream activities in a hyper-competitive environment. This implies that companies that are the earliest in tilting their strategy downstream are likely to reap the biggest rewards (Girotra & Netessine, 2014). This further illustrates that through a client-centric approach, banks can migrate from just being a financial services provider to a business partner, through leveraging their network to deliver services that the SME customer needs (Accenture, 2016).

3.3.11 Independent variable 8: *strategic partnerships*

Partnerships have always been a critical strategy for business looking to grow in unfamiliar markets (Vollmer & Egol, 2014). Defined as any relationship with another business or individual that can help your business tap new customer segments or sell additional products or services. Accenture (2017) suggests banks should consider the ecosystem approach, in meeting the hugely varied needs of the SME customer through partnering with established technology providers and Fin-Tech organizations. This variable refers to the argument that it is key for businesses to explore opportunities that leverage on emerging technologies and ecosystems in order to bring about an entirely new revenue stream into their businesses (Berman, Davidson, Ikeda, Korsten & Marshall, 2016).

3.4 SUMMARY

This chapter underlined the conceptual framework as a crucial part of the research design. A specific framework was designed to assist banking sector officials in capturing the revenue potential embedded with the SME segment by conceptualizing the numerous factors that would influence their perception. This framework offers an illustration of the relationship between variables and provides direction to the research. The main underlying drivers were identified as competitive landscape, dynamic function of SMEs in an economy and the revenue entrenched within the sector. Chapter Three dealt with the research objective RO4 by developing a conceptual model that will potentially unlock the revenue embedded in the SME segment. Chapter Four will focus on the research design and methodology that was designed by means of the conceptual framework.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 INTRODUCTION

Research questions Q1 to Q4 and research objectives O1 to O4 are addressed in this Chapter. The literature reviewed in Chapters Two and Three alludes that the revenue potential embedded within the SME market can be captured by Commercial Banks through reconfiguring service models. This addresses the main objective of this academic research as outlined in Chapter One, which is to determine a suitable conceptual service delivery framework to unlock the revenue potential of the SME segment of Commercial Banks in South Africa.

Chapter Four will outline the methodology and the research process that will be used to inspect the findings in the reviewed literature. This will be done by outlining the process that will be undertaken throughout the study to evaluate the appropriateness of the proposed conceptual framework to unlock the revenue potential of the SME segment of Commercial Banks in South Africa. It will articulate the research paradigm, research design which encompasses the planning of the research and the research approach which drives the type of data that will be collected and used for this academic research. This Chapter will conclude by describing how data will be collected and later analyzed in furtherance of evaluating the proposed conceptual framework.

4.2 THE POPULATION AND SAMPLE

According to Collis and Hussey (2014), a research population is generally a large collection of individuals or objects that is the main focus of a scientific enquiry. It is for the benefit of the population that research is conducted. The target population for this study was banking frontline officials, senior sales and credit officials. The population additionally encompassed the teams within banking responsible for customer service management for SMEs. The participants varied in terms of age, race and work experience level. Participation in the research was absolutely voluntary and no one was coerced or was left with no option other than to participate in a study. From an anonymity and confidentiality perspective, participants' right to privacy were not violated in any way. A pilot study was conducted with senior management at a leading South African Bank, with the aim of ensuring that the questionnaire used in the study was

designed in such a manner that the respondents did not have a problems completing the questions. The study utilized a snowball sampling method. This is defined by Handcock and Gile (2011) as the method of recruiting a few identified members of a rare population and then asking them to identify other members of the population to take part in the study. The above sampling method is often used if the sample for the study is very rare or very specialized or difficult to penetrate.

The participation in the study was voluntary and could be declined if not interested to participate in the study. A consent letter was attached to the invitation. The survey was conducted on an anonymous basis and no responses could be traced back to any specific participant.

4.3 THE QUESTIONNAIRE DESIGN AND DATA COLLECTION

The questionnaire is based on the different elements of the conceptual framework. Some key themes addressed by the survey questionnaire detail the following:

- Demographics.
- Digital transformation
- Digital ecosystems
- Internal commercial positioning
- Market segmentation
- Service models
- Relationship management
- Risk Management
- Level of awareness regarding the value of an ecosystem approach among the respondents.

The questionnaire initially collects basic demographic information about each respondent this included variables like age, level of qualification, level of management and experience. These factors all have the ability to possibly influence the respondent's view on the value of an ecosystem approach to SME banking. The questionnaire used to collect data for this study predominantly contains multiple choice and rating scale type questions. The rating scale type questions were designed according to the Likert scale which expresses the scale of the respondent's attitude towards a statement (Blumberg et al., 2011).

A five point Likert-type interval scale was used. To conclude, respondents had the opportunity to put forward additional comments regarding banking services delivery to the SME market via open-ended question commentary.

To ensure reliability and validity of the survey, it was sent through to senior banking officials for preliminary testing. The survey was subsequently created online, employing QuestionPro and thereafter, it was emailed to respondents. Descriptive and inferential statistical techniques will be used to scrutinize the collected data. A survey study was selected because of the high representativeness brought about by the survey method. It is often easier to find statistically significant results in this way, than other data gathering methods. Multiple variables can also be effectively analyzed using surveys.

4.4 DATA ANALYSIS

Data analysis entails the use of a systematic approach to describe the findings from data collected, extract reasoning, detect patterns and test the hypotheses/theories. Once more, the adopted method for analyzing the collected data is reliant on whether the study is quantitative or qualitative. This research is dependent on the use of statistical methods to analyze the data collected. Chapter Five will deliberate further on the analytical findings from the data in more detail. These findings were collected using descriptive statistics and inferential statistical methods. Descriptive statistical techniques will be used to recapitulate and exhibit the quantitative data collected during the survey for proper interpretation.

Inferential statistical techniques will be used to test hypotheses on the possibility of association between the level of awareness by respondents on the value of the ecosystem approach to SME Banking covering the variables of age, management level and their educational level as stated below:

Ho1: There is no association between digital transformation and the level of education.

Ho2: There is no association between digital ecosystem perception and the level of management.

Ho3: There is a no relationship between the digital ecosystem being viewed to influence the banks' ability to meet the unique SME's customers' needs and SMEs wanting their banks to act as market enablers that can assist in managing and growing their business.

- Ho4:** There is a no relationship between SME markets being viewed to offer Commercial Banks the opportunity to increase profits or revenue and digital transformation being seen to have a positive effect on risk management
- Ho5:** There is a no relationship between SME markets being viewed to offer Commercial Banks the opportunity to increase profits or revenue and the need for banks to find innovating ways to create personalized and valuable relationships with SMEs through digital channels.
- Ho6:** There is a no relationship between SME markets being viewed to offer Commercial Banks the opportunity to increase profits or revenue and the need for banks to have a standalone specialist SME department.
- Ho7:** There is a no relationship between SME markets being viewed to offer Commercial Banks the opportunity to increase profits or revenue and the SME market being viewed as being large enough to justify its own marketing penetration strategy.
- Ho8:** There is a no relationship between SME markets being viewed to offer Commercial Banks the opportunity to increase profits or revenue and SMEs being viewed to constitute a significant portion of the overall South African economy.
- Ho9:** There is a no relationship between SME markets being viewed to offer Commercial Banks the opportunity to increase profits or revenue and banks being viewed as being able to assist SMEs to develop interdependent business relations with other enterprises.
- Ho10:** There is a no relationship between SME markets being viewed to offer Commercial Banks the opportunity to increase profits or revenue and how SMEs need to have transparency and standardized information, financial sophistication and reporting capabilities.

The data analysis process will utilize the data collected to assess and validate the findings from the literature review conducted in Chapter Two and Chapter Three in the context of this research. The result of the analysis will also be used to improve the conceptual framework where necessary.

4.5 RESEARCH DESIGN

According to Collis and Hussey (2014), research design refers to the choices that are made in terms of methodology and the methods that are used to address the research questions. It is the overall strategy that is chosen to incorporate the different components of the academic research in an intelligible and logical way. In so doing, ensuring you will efficiently address the research problem. The design encompassed the blueprint for the collection, measurement, and analysis of data (Labaree, 2009). In generating an appropriate research design, it is vital to establish the research paradigm.

4.5.1 RESEARCH PARADIGM

Levers (2013) cites that in order to ensure a strong research design, a researcher should decide on a research paradigm that is compatible with their beliefs about the nature of reality. In agreement with that thought process, the chosen paradigm within this study will be post-positivism with a constructivism undercurrent, because insight and observation are fallible, and our constructions must not be defective (Miller, 2011). Post-positivists fundamentally endeavour to surpass and upgrade positivism, and not necessarily a rejection of all positivist ideas and hypotheses of the scientific method (Adam, 2013). Post-positivists expect to evolve closer to the truth while also acknowledging that findings are only fractional sections or approximations of the truth (Levers, 2013).

Post-positivism distinguishes that the manner in which scientists think and work and the manner we all think in our everyday life are not noticeably different (Manuel, 2013). Scientific reasoning and common sense reasoning are fundamentally the same process, the difference between science and common sense is small (Miller, 2011). Consequently, the research will collect quantitative data with the main deliverable being a conceptual framework to unlock the revenue potential of the SME segment of Commercial Banks in South Africa

4.5.2 RESEARCH APPROACH

This study attempts to solve this particular management problem through a conceptual service delivery framework which will be recommended for execution within the SME segment of Commercial Banks in South Africa. The research is founded on literature reviews on customer strategy, customer relationship management, operational models, and SME Banking and customer service model strategies. The framework proposed will be evaluated through a quantitative approach. The process will include a descriptive and correlational research attempting to determine the critical success factors of a successful conceptual framework to unlock the revenue potential of the SME segment of Commercial Banks in South Africa. This study will primarily make use of the quantitative approach for the most part of the study, but the qualitative approach will also be used. Quantitative research focuses on gathering numerical data and generalizing it across groups of people or to explain a particular phenomenon, while qualitative research is primarily exploratory research (Babbie, 2010). It is used to gain an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses of the outcome of the study (Wyse, 2011). The core research instrument will be a survey questionnaire precisely designed for the determination of this research.

4.6 SUMMARY

This Chapter served as an overview of the design process of the research, highlighting that post-positivism with a constructivism undercurrent was the chosen paradigm. The population targeted for the study was business banking officials from a leading Commercial Bank. The response rate for the survey was relatively good, with 74 from 100 invited respondents completing the questionnaire. The questionnaire was designed according to the direction given by the conceptual framework in Chapter Three and was launched on an electronic survey platform, QuestionPro. After the survey was tested, it was electronically distributed to the target population. The data was analyzed following the Chi-square test and histogram analysis approach.

Chapter Five will present the findings from the survey questionnaire that was used to test respondents understanding of various concepts relating to the service delivery framework necessary to unlock the revenue potential of the SME segment of Commercial Banks in South Africa.

CHAPTER FIVE

RESULTS AND DISCUSSION

5.1 INTRODUCTION

Research question Q4 and research objective O5 are addressed in this Chapter. The literature reviewed in Chapters Two and Three described the important factors that are needed to unlock the revenue potential embedded within the SME market by Commercial Banks in South Africa. Chapter Four discussed the research design and methodology that was used to conduct this study. On the basis of the literature review, Chapter Three presented a conceptual service delivery framework that South African Commercial Banks could use to unlock revenue and improve the profitability of their SME banking portfolio. In order to validate the conceptual framework, empirical research was conducted by this study.

In order to achieve the objective and answer the abovementioned research question, Chapter Five will analyze the data collected, using descriptive and inferential statistical methods. An effort will be made to present the analysis and interpretation in a manner and format that is easy to understand.

5.2 THE QUESTIONNAIRE

The questionnaire (Appendix B) used for this study was designed to collect data on the following:

The results are presented in the following order:

- Demographic variables
- Statements concerning digital transformation, risk management, relationship management, service models and market segmentation.
- Statements concerning digital ecosystem, ecosystem driver model, strategic partnerships and internal commercial positioning.

The demographic data was collected because it helps to answer the research questions and assist in describing the sample of respondents. According to the literature and the objectives on this research, the degree to which the respondents perceive the SME market to be profitable is the dependent variable and the other eight measurements are intervening/independent variables. Statistically, the dependent variable is completely dependent on the various independent variable(s).

5.3 RESPONSE RATE

In survey research, response rate, also known as completion rate, is the number of people who answered the survey divided by the number of people in the sample. The completion rate is a critical factor in determining if the inferences from a survey are descriptive of the population. The higher the response rate of a survey, the lower the risk of non-response bias. The target population for the study were business banking officials. The response rate for the survey was relatively good, with 74 from 100 respondents completing the survey, signifying a 74% response rate.

5.4 RELIABILITY TESTS

In order to ensure the integrity of the survey, the survey questions were subjected to a reliability test. This was done to ensure that the responses received would remain stable or constant if another survey is carried out at a different time to establish retest reliability (Collis & Hussey, 2014). Internal consistency was used as a measure of reliability, the method applied was Cronbach's alpha. A reliability coefficient such as Cronbach's alpha demonstrates whether the test designer was correct in expecting a certain collection of items to yield interpretable statements about individual differences (Cronbach, 1951, 2004). According to Tavakol and Dennick (2011), internal consistency should be determined before a test can be employed for research or examination purposes to ensure validity. The authors concur acceptable values of alpha range from 0.70 to 0.95; however, they recommend a maximum alpha value of 0.90. On the other hand, Tavakol & Dennick (2011) allude to the fact that most researchers often assume that by demonstrating that the alpha was greater than 0.70, sufficient reliability is proven. However it is important to note Cronbach (1951), only suggested that a high value of alpha was 'desirable'. While Schmitt (1996) on the other hand suggested that there is no general level (such as 0.70) where alpha becomes acceptable, but rather that variables with a rather low value for alpha can still prove useful in some circumstances. What is pinpointed is that cores obtained for such a scale need to be interpretable and this was often possible without needing very high values of alpha. Consequently, this research acknowledges both the interpretability of scale and that 0.50 is an acceptable score for a basic or exploratory research (Cronbach, 1951). That will be the research's preferred coefficient.

Table 5.1 shows the final results of reliability tests for each of the scales after the preferred coefficient has been achieved. For that reason, only the questions contained within are considered for statistical measurement of each scale.

Table 5.1: Cronbach's Alpha scores		
Scale	Cronbach's Alpha	Measuring Instruments
	Raw	
Digital transformation	0.7	Technology has emerged as a competitive weapon in driving operational excellence and superior service quality
		Investments in digitalization is not made to cut costs, but rather to increase revenue and profitability.
		Technology has emerged as a competitive weapon in driving operational excellence and superior service quality
		Banks must find innovating formulas to create personalized and constructive relationships through digital channels.
		Strategic partnerships are becoming increasingly central to traditional banks' digital transformation strategy.
Service model	0.7	A high-touch relationship model is the most appropriate way to service the SME customer.
		It is economical and best practise to offer every SME customer a relationship manager.
		A people intensive credit risk (Loan origination, underwriting, monitoring and collections) and service management approach is the best way to managing SME risk.
Market Segmentation	0.7	The SME market is large enough to justify its own marketing penetration strategy
		Advanced segmentation approaches to the SME market, based on indicators such as lifestyle, business lifecycle, and channels preference will unlock revenue potential embedded in the segment.
		SMEs constitute a significant portion of the overall South African economy
		The existing variety of financial products and services offering is not adequate to meet the needs of all SMEs.
		More SMEs want their banks to evolve from “product pushers” to holistic advisors.
		New generation SME customers have high expectations

Table 5.1: Cronbach's Alpha scores

Scale	Cronbach's Alpha	Measuring Instruments
	Raw	
Risk Management	0.6	Effective use of risk management strategies by SME's will help to reduce the perceived riskiness of the SME market amongst banks
		Effective people management practices by SMEs will reduce the perceived riskiness of the SME market
		Effective supply chain management skills and knowledge by SMEs will reduce the perceived riskiness of the SME market.
		Transparency, standardized information, financial sophistication and reporting capabilities will reduce the perceived riskiness of the SME market
		The perceived riskiness of SME financing can effectively be addressed by way of a hybrid service channel
Relationship Management	0.7	Banks in general have a pool of good business managers serving SMEs
		Banks are able to retain good business managers serving their SMEs portfolio.
		The average business manager is capable of acquitting themselves effectively in front of the SME customers.
		The average business manager is able to offer sound business advice and insight to the SME customer.
Digital Ecosystem	0.8	Digital ecosystem will positively influence the banks' ability to meet the SMEs unique customers' needs
		Interdependent mutually beneficial business relationships between SMEs and businesses can be achieved through a digital ecosystem approach
		A digital ecosystem is the key differentiating factor for improving customer experience and loyalty.
		Offering financial products and services through a digital ecosystem approach provides banks with the opportunity to increase revenue generated from SMEs

Table 5.1: Cronbach's Alpha scores		
Scale	Cronbach's Alpha	Measuring Instruments
	Raw	
Strategic Partnerships	0.8	Partnering with Fin-Techs is a more efficient way to participate in the SME market.
		Fin-Tech partnerships are a two-way street, and may help traditional banks to capture the revenue embedded in the SME market.
Ecosystem driver model	0.7	SMEs need support to obtain more business with simplicity, reliability and speed.
		Banks should consider an ecosystem approach in meeting the hugely varied needs of the SME customer.
		More SMEs want their banks to act as market enablers that can assist in managing and growing their business.
Internal commercial position	0.48	Banks should have a standalone specialist SME department.
		SMEs are similar to retail customers, therefore SME banking ought to fall within the retail banking environments
		SME banking ought to position itself within retail banking so that they can leverage from certain retail offerings.
		SMEs are homogenous in terms of their banking needs

5.5 DESCRIPTIVE STATISTICS

According to Larson (2006), data analysis begins with calculation of descriptive statistics for the research variables. Descriptive statistics summarize various characteristics about the data, providing details about the sample and giving underlying information about the population from which the sample was drawn. Graphical displays and tabular presentations complement descriptive statistics; graphs have the ability to emphasize trends and tables through their ability to encapsulate large amounts of data with a high degree of numeric detail.

Descriptive statistics such as the mean, median, mode and standard deviation (STD) were calculated in order to describe the responses to the survey question for dependent and interdependent variables. The responses were categories on the 5-point Likert Scale for all the questions. Since Likert-type items fall into the ordinal measurement scale, the descriptive statistics recommended for ordinal measurement scale items include a mode or median for central tendency and frequencies for variability (Boone & Boone 2012). In addition, according to Boone & Boone (2012), if Likert questions are unique and stand-alone, which is the case in this research, then analyzing them as Likert-type items is recommended. According to the authors, the mode, median and frequencies for variability, are the appropriate statistical tools to use. For this study, confidence will be placed on the median as the measure that demonstrates consensus.

The below sections present the descriptive statistics that are contained in the collected data about the demographic distribution of the respondent, their perception on digital ecosystems, digital transformation, ecosystem driver model approach to SME Banking, risk management, market segmentation, service model and relationship management.

5.5.1 SAMPLE DEMOGRAPHICS

Table 5.2 summarizes the demographics of the sample.

In terms of gender, the sample is dispersed as follows: 56.82% and 43.18% respectively between male and females. The majority of the sample (20%) from an age perspective consisted of respondents between the ages of 31-35 years. Ages of 25-30 and 36-40 joint second at 18.57%. From an educational level, 11.11% of the sample only possessed matric certification; 18.06 % of the respondents hold a diploma, 36.11% a bachelor's degree; 27.78% an honours qualification and 6.94% of respondents held a master's degree. The selected sample is more educated than the average South African. In addition, 47.14% of respondents have completed a company specific management development programme, indicating that the sample consists of a pool of strong talented individuals.

The management level profile analysis revealed the following: 5.63% of the respondents were specialists, 38.03% were in junior positions, 36.62% in middle management and 19.72% senior management. Additionally, roughly 7% of the

respondents had less than two years of work experience in business banking; 18.57% between two and five years of experience; 17.14% between five years to nine years of experience and 57.14% of respondents had more than nine years of experience. With regard to experience in current role, 33.33% had less than two years' experience; two to five years (29.17%), five to nine years' experience (19.44%) and the over nine years of experience constituted 18.06%. It can be concluded that the sample represents all the demographics of a bank fairly, with regards to work experience, educational level, management level, and business banking experience.

Table 5.2: Sample demographics

Variable	Sample Characteristic (n=72)
Gender	
Male	56.82%
Female	43.18%
Age	
Below 25	1.43%
25 - 30	18.57%
31-35	20.00%
36-40	18.57%
41-45	11.43%
46-50	12.86%
Above 50	17.14%
Level of Education	
Matric	11.11%
Diploma	18.06%
Bachelor's	36.11%
Honours	27.78%
Master's	6.94%
Company specific management development program	
No	52.86%
Yes	47.14%
Management Level	
Junior	38.03%
Middle	36.62%
Senior	19.72%
Specialist	5.63%
Years' Experience in business banking	
< 2 years	7.14%
2 >5yrs	18.57%
5 >9yrs	17.14%
> 9yrs	57.14%
Years' Experience in Current Role	
< 2 years	33.33%
2 >5yrs	29.17%
5 >9yrs	19.44%
> 9yrs	18.06%

5.5.2 GENERAL OVERVIEW

This section of the survey evaluated the respondents' perception of the SME segment in terms of profitability and revenue potential. The survey was designed in a manner that it tested perceptions and understanding of key concepts which included the following: ecosystem thinking, business growth platforms, service delivery and market segmentation of the SME customer. Additionally, it tested whether respondents understood that interdependent mutually beneficial business relationships between SMEs and businesses can be achieved through a digital ecosystem approach.

5.5.2.1 Digital transformation

The respondents demonstrated an understanding and an appreciation for the role digital transformation will play in SME Banking. In agreement with the findings from the reviewed literature, the sample respondents also agreed that digital transformation will positively influence the banks' ability to meet the SMEs unique customers' needs. Furthermore the respondents on average agreed that banks must find innovative methods to create personalized and constructive relationships through digital networks. Figures 5.2–5.6 as per Appendix C gives more insight from a graphical perspective into the results.

Table 5.3: Digital transformation survey responses		
#	Question	Observation
Q1	Digital transformation will have a positive effect on risk management.	70% either agreed or strongly agreed, and 26% are indecisive. In addition 4% either disagree or strongly disagreed
Q2	Technology has emerge as a competitive tool in driving operational excellence and superior service quality.	93% either agreed or strongly agreed, and 7% are indecisive.
Q3	Investments in digitalisation is not made to cut cost, but rather to increase revenue and profitability.	70% either agreed or strongly agreed, and 14% are indecisive. In addition 13% disagree.
Q4	Banks must find innovating formulas to create personalised and constructive relationship through digital channels.	93% either agreed or strongly agreed, and 6% are indecisive. In addition 1% disagree
Q5	Strategic partnerships are increasingly becoming central to traditional banks' digital transformation strategy.	84% either agreed or strongly agreed, and 16% are indecisive.

Table 5.4: Digital transformation descriptive statistics				
Question	Mean	Median	Mode	STD
Q1	3.8	4	4	0.83
Q2	4.4	4	4	0.58
Q3	3.8	4	4	0.95
Q4	4.2	4	4	0.58
Q5	4.0	4	4	0.60

Table 5.4 illustrates that with regard to questions measuring digital transformation, they all returned a median score ($x = 4$). The great majority of respondents agreed with the statements measuring digital transformation. In other words, the majority of respondents agreed that digital transformation is pivotal to unearthing the revenue potential embedded in the SME market segment.

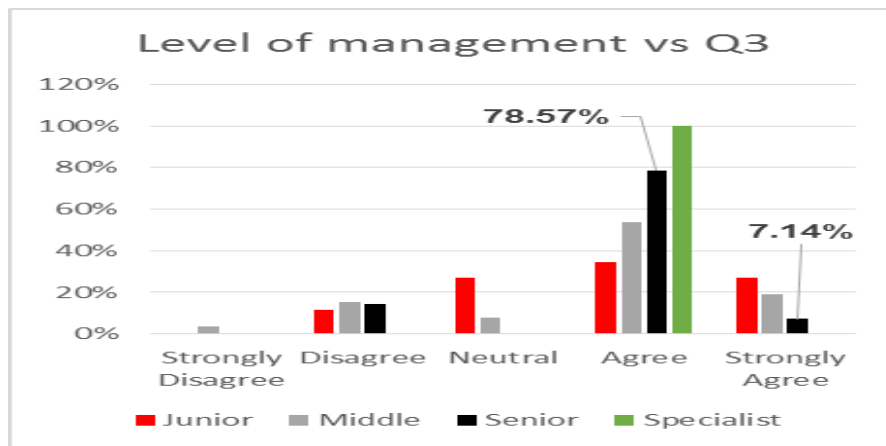


Figure 5.1: Level of management vs. Q3

Source: Author's own construction

The graph in Figure 5.1 shows that roughly 86% (Agree+ Strongly Agree) of senior management see investment in digitalization as a value creating initiative rather than a simple cost cutting exercise. Another observation is that the strongly agree and agree percentage reduces with the management level, at roughly 73% and 61% for middle and junior levels respectively. In conclusion, the indication is that the sample respondents understood the role that digital transformation can play with regards to operational excellence and superior service quality. It can be resolved that the respondents agree that digital transformation will be key to increasing both the profitability and revenue of SME Banking, in addition to playing a pivotal role in reducing the cost to serve the SME segment. Through their appreciation of digital

channels, they understand the disruptive role digital transformation will perform in the manner the SME customer is serviced.

5.5.2.2 Service models

The respondents demonstrated an understanding of service models; however only 18% agreed that SMEs are satisfied with the current model. This is an encouraging signal illustrating that the majority of banking officials in the sample realize banks are underperforming with regards to servicing the SME customer. This is in agreement with the findings from the reviewed literature. Figures 5.7–5.10 as per Appendix C gives more insight from a graphical perspective into the results.

Table 5.5: Service model survey responses		
#	Question	Observation
Q2	A high-touch relationship model is the most appropriate way to service the SME customer	58% either agreed or strongly agreed, and 29% are indecisive. In addition only 13% disagreed or strongly disagree
Q3	It's economical and best practise to offer every SME customer a business manager.	55% either agreed or strongly agreed, 19% are indecisive. In addition only 26% disagreed or strongly disagree
Q4	A people intensive credit risk (loan origination, underwriting, monitoring and collections) management approach is critical to servicing SME's because it's the best way to manage SME risk and service.	58% either agreed or strongly agreed, 22% are indecisive. and 20% either disagreed or strongly disagreed

Table 5.6: Service model descriptive statistics				
Question	Mean	Median	Mode	STD
Q1	3.56	4.00	4.00	0.93
Q2	3.35	4.00	4.00	1.10
Q3	3.42	4.00	4.00	0.98

Table 5.6 illustrates that with regard to questions measuring service models, they all returned a median score ($x = 4$). The majority of respondents agreed with the statements measuring service models. In other words, the majority of respondents

agreed that how service models are configured is pivotal to unearthing the revenue potential embedded in the SME market segment. However, the lower mean score relative to the median and the higher standard deviation value indicates greater spread in the data, signifying a bit of indecisiveness regarding the provisioning of services to SMEs. In conclusion, as anticipated the respondents revealed varying opinions with regards the correct approach to Customer Relationship Management. The lack of consensus is encouraging. A possible indication is that a hybrid service delivery model for the SME customer could be the most appropriate approach.

5.5.2.3 Market segmentation

The respondents demonstrated an understanding and an appreciation of the heterogeneous nature of the SME customer segment. In agreement with the findings from the reviewed literature, the sample respondents also agreed that SMEs constitute a sizeable proportion of the South African economy. In addition, the majority of the respondents agreed that the market should have its own penetration strategy. Respondents revealed varying opinions with regards to the degree to which current products and services meet the SME customer needs. Figures 5.9–5.14 as per Appendix C gives more insight from a graphical perspective into the results.

Table 5.7: Market segmentation survey responses

#	Question	Observation
Q1	SME's constitute a significant portion of the overall South African economy	82% either agreed or strongly agreed, and 12% are indecisive. and 6% either disagreed or strongly disagreed
Q2	The SME market is large enough to justify its own marketing penetration strategy	80% either agreed or strongly agreed, and 17% are indecisive. In addition only 3% agreed or strongly agree
Q3	Advanced segmentation approaches to the SME market, based on indicators such as lifestyle, business lifecycle, and channels preference will unlock revenue potential embedded in the segment.	84% either agreed or strongly agreed, and 14% are indecisive. In addition 2% agreed or strongly agree
Q4	The existing variety of financial products and services offering is not adequate to meet the needs of all SMEs.	58% either agreed or strongly agreed, and 29% are indecisive. In addition 13% agreed or strongly agree
Q5	More SMEs want their banks to evolve from “product pushers” to holistic advisors.	86% either agreed or strongly agreed, and 13% are indecisive. and 1% either disagreed or strongly disagreed
Q6	New generation SME customers have high expectations	90% either agreed or strongly agreed, and 10% are indecisive.

Table 5.8: Market segmentation descriptive statistics

Question	Mean	Median	Mode	STD
Q1	4.11	4.00	4.00	0.82
Q2	4.11	4.00	4.00	0.78
Q3	4.04	4.00	4.00	0.62
Q4	3.55	4.00	4.00	0.84
Q5	4.24	4.00	4.00	0.75
Q6	4.35	4.00	4.00	0.63

Table 5.8 illustrates that with regard to questions measuring market segmentation, they all returned a median score ($x = 4$). The great majority of respondents agreed with the statements measuring market segmentation. In other words, the majority of respondents agreed that advanced segmentation approaches to the SME market by banks will enable them to service the market more effectively. In conclusion, the

overall indication is that the sample respondents understood that the SME customer segment constitutes a significant portion of the economy. As a result, the market can be sub-segmented

5.5.2.4 Risk management

The respondents demonstrated an understanding of the role risk management plays in how the SME market segment is perceived by banking officials. In agreement with the findings from the reviewed literature, the sample respondents also agreed that a hybrid service model will effectively address the perceived riskiness of SME financing. Figures 5.17–5.20 as per Appendix C gives more insight from a graphical perspective into the results.

Table 5.9: Risk management survey responses		
#	Question	Observation
Q1	Effective use of risk management strategies by SME's will help to reduce the perceived riskiness of the SME market amongst banks	86% either agreed or strongly agreed, 13% are indecisive and 2% either disagreed or strongly disagreed
Q2	A people intensive credit risk (Loan origination, underwriting, monitoring and collections) and service management approach is the best way to manage SME risk.	75% either disagreed or strongly disagreed, 23% are indecisive and 2% either agreed or strongly agreed
Q3	Effective supply chain management skills and knowledge by SMEs will reduce the perceived riskiness of the SME market.	84% either agreed or strongly agreed, and 16% are indecisive.
Q4	Transparency and standardised information, financial sophistication, reporting capabilities will reduce the perceived riskiness of the SME market	87% either agreed or strongly agreed, 11% are indecisive and 2% either disagreed or strongly disagreed
Q5	The perceived riskiness of SME financing can effectively be addressed by way of a hybrid service channel	87% either disagreed or strongly disagreed, 8% are indecisive and 5% either agreed or strongly agreed

Table 5.10: Risk management descriptive statistics				
Question	Mean	Median	Mode	STD
Q1	4.06	4.00	4.00	0.75
Q2	3.90	4.00	4.00	0.72
Q3	4.01	4.00	4.00	0.69
Q4	4.14	4.00	4.00	0.62
Q5	4.00	4.00	4.00	0.65

Table 5.10 illustrates that with regard to questions measuring risk management, they all returned a median score ($x = 4$). The greater majority of respondents agreed with the statements measuring risk management. In other words, the majority of respondents agreed that risk management is pivotal to unearthing the revenue potential embedded in the SME market segment. In conclusion, the indication is that the sample respondents understood that risk management practices from both the financial institution and SME can play a major role in unlocking the revenue potential embedded within the SME segment

5.5.2.5 Relationship management

The respondents demonstrated an understanding of the vital role relationship management plays within SME banking, nonetheless only 43% agreed that SMEs banks have good business managers servicing this portfolio. This is an encouraging signal that illustrates that the majority of banking officials in the sample realize banks are underperforming with regard to servicing their SME customer. This is also in agreement with the findings from the reviewed literature. Figures 5.22–5.24 as per Appendix C gives more insight from a graphical perspective into the results.

Table 5.11: Relationship management survey responses		
#	Question	Observation
Q1	Banks in general have a pool of good business managers serving SME's.	43% either agreed or strongly agreed, 27% are indecisive and 30% either disagreed or strongly disagreed
Q2	Banks are able to retain good business managers serving their SME's portfolio.	39% either disagreed or strongly disagreed, 39% are indecisive and 22% either agreed or strongly agreed
Q4	The average business manager is capable of acquitting themselves effectively in front of their SME customers.	48% either agreed or strongly agreed, 26% are indecisive and 26% either disagreed or strongly disagreed
Q5	The average business manager is able to offer sound business advice and insight to the SME customer.	53% either agreed or strongly agreed, 16% are indecisive and 31% either disagreed or strongly disagreed

Table 5.12: Relationship management descriptive statistics				
Question	Mean	Median	Mode	STD

Q1	3.15	3.00	4.00	1.00
Q2	2.81	3.00	3.00	0.96
Q3	3.24	3.00	4.00	0.95
Q4	3.28	4.00	4.00	1.06

Table 5.12 illustrates that with regard to questions measuring relationship management, three of the questions (Q1-3) returned a median score ($x = 3$), while Q4 score ($x=4$) demonstrating that majority of respondents showed indecisiveness towards the statements measuring current state of relationship management within SME Banking. In other words, the majority of respondents viewed the current competency levels of business managers servicing the SME market as an impediment to unearthing the revenue potential embedded in the SME market segment.

As anticipated, the respondents revealed varying opinions with regard to the quality of business managers managing SME relationships. The lack of consensus is encouraging. A possible indication is that SME relationship management needs to be improved upon.

5.5.2.6 Digital ecosystems

On average, the respondents demonstrated an understanding of digital ecosystems. In agreement with the findings from the reviewed literature, the sample respondents also agreed that digital ecosystems will positively influence the banks' ability to meet the SMEs unique customers' needs. Furthermore, the respondents on average agreed that interdependent mutually beneficial business relationships between SMEs and businesses can be achieved through a digital ecosystem approach. Figures 5.25–5.28 as per Appendix C gives more insight from a graphical perspective into the results.

Table 5.13: Digital ecosystem survey responses		
#	Question	Observation
Q1	Digital ecosystems will positively influence the banks' ability to meet the unique SMEs customers' needs.	85% either agreed or strongly agreed, and 14% are indecisive and 1% disagreed
Q2	Interdependent mutually beneficial business relationships between SME's and businesses can be achieved through a digital ecosystem approach	75% either agreed or strongly agreed, and 22% are indecisive and 3% disagreed
Q3	A digital ecosystem is a key differentiating factor for improving customer experience and loyalty.	85% either agreed or strongly agreed, and 14% are indecisive and 1% disagreed
Q4	Offering financial products and services through a digital ecosystem approach provides banks with the opportunity to increase revenue generated from SME's.	85% either agreed or strongly agreed, and 14% are indecisive and 1% disagreed

Table 5.14: Digital ecosystem descriptive statistics				
Question	Mean	Median	Mode	STD
Q1	4.22	4.00	4.00	0.74
Q2	3.89	4.00	4.00	0.70
Q3	4.04	4.00	4.00	0.75
Q4	4.11	4.00	4.00	0.63

Table 5.14 illustrates that with regard to questions measuring a digital ecosystem, they all returned a median score ($x = 4$). The great majority of respondents agreed with the statements measuring a digital ecosystem. In other words, the majority of respondents agreed that digital ecosystems are pivotal to unearthing the revenue potential embedded in the SME market segment. In conclusion, the indication is that the sample respondents understood the role a digital ecosystem approach can play in unlocking the revenue potential embedded within the SME segment.

5.5.2.7 Strategic partnerships

The respondents demonstrated an understanding of the role that strategic partnerships can play in winning the SME market. In agreement with the findings from the reviewed literature, the sample respondents also agreed that strategic partnerships will positively influence the banks' ability to meet the SMEs unique customers' needs. Figures 5.29–5.30 as per Appendix C gives more insight from a graphical perspective into the results.

Table 5.15: Strategic partnerships survey responses		
#	Question	Observation
Q1	Partnering with Fin -Tech is a more efficient way to participate in the SME market.	69% either agreed or strongly agreed, and 26% are indecisive and 4% disagree.
Q2	Fin- Tech partnerships are a two-way street and may help traditional banks to capture the revenue embedded in the SME market.	73% either agreed or strongly agreed, and 26% are indecisive and 4% disagree and 1% disagreed

Table 5.16: Strategic partnerships descriptive statistics				
Question	Mean	Median	Mode	STD
Q1	3.88	4.00	4.00	0.80
Q2	3.96	4.00	4.00	0.74

Table 5.16 illustrates that with regard to questions measuring strategic partnerships, they all returned a median score ($x = 4$). The great majority of respondents agreed with the statements measuring strategic partnerships. In other words, the majority of respondents agreed that strategic partnerships are pivotal to unearthing the revenue potential embedded in the SME market segment. In conclusion, the indication is that the sample respondents understood the role that strategic partnerships will play a supportive role in how the SME customer is serviced.

5.5.2.8 Ecosystem driver model

On average, the respondents demonstrated an understanding that banks had to play the role of a market enabler in order to win the SME market. In agreement with the findings from the reviewed literature, the sample respondents also agreed that an ecosystem approach will positively influence the banks' ability to meet the unique

SMEs customers' needs. Figures 5.29–5.30 as per Appendix C gives more insight from a graphical perspective into the results.

Table 5.17: Ecosystem driver model survey responses		
#	Question	Observation
Q1	SME's need support to obtain more business with simplicity, reliability and speed.	93% either agreed or strongly agreed, and 6% are indecisive and 1% disagree.
Q2	Banks should consider an ecosystem approach, in meeting the hugely varied needs of the SME customer.	91% either agreed or strongly agreed, and 9% are indecisive.
Q3	More SME's, want their banks to act as market enablers that can assist in managing and growing their business.	97% either agreed or strongly agreed, and 3% are indecisive and 4% disagree.

Table 5.18: Ecosystem driver model descriptive statistics				
Question	Mean	Median	Mode	STD
Q1	4.26	4.00	4.00	0.63
Q2	4.17	4.00	4.00	0.56
Q3	4.34	4.00	4.00	0.53

Table 5.18 illustrates that with regard to questions measuring an ecosystem driver model, they all returned a median score ($x = 4$). The great majority of respondents agreed with the statements measuring an ecosystem driver model approach. In other words, the majority of respondents agreed that an ecosystem driver model approach is pivotal to unearthing the revenue potential embedded in the SME market segment. The overall indication is that the sample respondents understood that more SMEs wanted their banks to act as market enablers, while also assisting them to manage and grow their businesses.

5.5.2.9 Internal commercial position

The variable had a Cronbach's Alpha of below 0.50. However, it was not removed from the final framework due to the literature supporting clarity regarding the positioning of SME Banking within banks. The results indicate that there is a prevailing disagreement with regard to the commercial positioning of the SME banking business unit. This highlights yet again the finding from the reviewed literature that there is no consensus

on whether SME Banking should either be incorporated within Commercial or Retail Banking. Figures 5.33–5.36 as per Appendix C gives more insight from a graphical perspective into the results.

Table 5.19: Internal commercial position survey responses		
#	Question	Observation
Q1	Banks should have a standalone specialist SME department.	87% either agreed or strongly agreed, 4% are indecisive and 7% either disagreed or strongly disagreed
Q2	SME's are similar to retail customers, therefore SME banking ought to fall within the retail banking environment.	57% either disagreed or strongly disagreed, 23% are indecisive and 20% either agreed or strongly agreed
Q3	SME banking ought to position itself within retail banking so that they can leverage from certain retail offerings.	79% either agreed or strongly agreed, and 13% are indecisive. In addition 9% disagree.

Table 5.20: Internal commercial position descriptive statistics				
Question	Mean	Median	Mode	STD
Q1	3.82	4.00	4.00	0.74
Q2	2.49	2.00	2.00	1.08
Q3	4.14	4.00	4.00	0.80

Table 5.20 illustrates that with regard to questions measuring internal commercial position, two of the questions (Q1 & 3) returned a median score of ($x = 4$), while Q2 scored ($x=2$) demonstrating indecisiveness towards the statement measuring the internal commercial position of SME Banking within the bank. In other words, the respondents were not sure on whether to position SME Banking as part of retail or position it as a standalone business unit. In conclusion, the overall indication is that the sample respondents don't have consensus on the correct internal commercial position of SME banking.

5.6 OPEN-ENDED QUESTION

At the end of the survey, respondents were presented with an open-ended question to add any comments regarding the provisioning of banking services to the SME market. Only 4 of the 74 respondents added additional comments. These comments are reported below.

Table 5.21: Responses to Open-Ended question

Table 5.21: Responses to open-ended question	
#1	As financial sector and government we need to take the SME market seriously to unlock revenue potential and grow the South African economy and alleviate poverty through SME support.
#2	Political events and downgrades will scupper growth for a long time to come, so we may lose the opportunity to grow the SME markets.
#3	Specialised SME training must be given to business managers in business banking so as to add value in their interactions with SMEs and to reduce the perceived risk associated with SMEs.
#4	Banks should look at innovative ways to integrate the entire business registration process into their existing client on boarding capabilities

5.7 INFERENCE STATISTICAL ANALYSIS

According to Wegner (2016), inferential statistics roles are to use sample evidence to identify population measures. To achieve these inferences, statistical techniques are applied to reach estimates and hypotheses. The perceived profitability and revenue potential of the SME segment by the respondents of this study is considered the dependent variable. This section of the research will use the Chi-squared hypotheses technique to further test the association between the respondent's perception of digital transformation and a digital ecosystem approach against some demographic variables. Because this section examines the relationship or associations between two categorical variables, the research used a Chi-square test. The assumption of the Chi-square test is that the expected value in each category needs to be greater than five. To solve the above limitation, Fisher's exact test will be used to derive the p-value. The following tests were carried out at a 0.05 level of significance.

5.7.1 Association between level of education and digital transformation within SME Banking

Ho1: There is an association between digital transformation and the level of education.

Table 5.22: Chisquare test of association between the level of education and digital transformation.

Table 5.22 Chi Square Test of Association Between Level of Education and Digital Transformation.

Question	Chi Square	df	P.value	Decision	Association Exists
Technology has emerged as a competitive weapon in driving operational excellence and superior service quality	23.12	16	0.12	Accept Null	No
Investments in digitalization are not made to cut costs, but rather to increase revenue and profitability.	5.73	8	0.71	Accept Null	No
Technology has emerged as a competitive weapon in driving operational excellence and superior service quality	26.08	16	0.06	Accept Null	No
Banks must find innovating formulas to create personalized and constructive relationship through digital channels.	17.04	12	0.16	Accept Null	No
Strategic partnerships are becoming increasingly central to traditional banks digital transformation strategy.	11.55	8	0.17	Accept Null	No

Table 5.22 above shows the tests between all the measuring instruments used for the digital transformation scale. At the 5% level of significance, digital transformation is independent of the level of education of the respondents. Therefore, there is no association between how digital transformation is perceived and the educational level of the respondent. This implies that South African Commercial Banks will not need to focus on the educational level of its employees when designing their digital transformation execution strategy, which is likely to improve adaption.

5.7.2 Association between level of management and digital ecosystem-approach to SME Banking

Ho2: There is an association between digital ecosystem perception and the level of management.

Table 5.23: Chi-square test of association between level of management and digital ecosystem

Table 5.23 Chi Square Test of Association Between Level of Management and Digital Ecosystem					
Question	Chi Square	df	P.value	Decision	Association Exist
Digital ecosystem will positively influence the banks' ability to meet the unique SMEs customers' needs	5.19	9	0.83	Accept Null	No

Table 5.23 Chi Square Test of Association Between Level of Management and Digital Ecosystem					
Question	Chi Square	df	P.value	Decision	Association Exist
Interdependent mutually beneficial business relationships between SMEs and businesses can be achieved through a digital ecosystem approach	7.54	9	0.58	Accept Null	No
A digital ecosystem is the key differentiating factor for improving customer experience and loyalty.	8.50	9	0.49	Accept Null	No
Offering financial products and services through a digital ecosystem approach provides banks with the opportunity to increase revenue generated from SMEs	12.58	9	0.17	Accept Null	No

Table 5.23 above shows the tests between all the measuring instruments used for the digital ecosystem scale. At the 5% level of significance, digital ecosystem is independent of the level of management of the respondents. Therefore, there is no association between how a digital ecosystem approach to SME Banking is perceived and the management level of the respondent. This implies that the entire bank community are well aware of the benefits of a digital ecosystem, and that interdependent mutually beneficial business relationships between SME's and businesses can be achieved through a digital ecosystem approach.

5.7.3 Association between digital ecosystem approach to SME Banking and SMEs wanting their banks to act as market enablers

Ho3: There is a positive relationship between a digital ecosystem being viewed to influence the banks' ability to meet the SMEs unique customers' needs and SMEs wanting their banks to act as market enablers that can assist in managing and growing their business.

Table 5.24: Chi-square test of the association between digital ecosystem being viewed to influence the banks' ability to meet the SMEs unique customers' needs and SMEs wanting their banks to act as market enablers that can assist in managing and growing their business.

Table 5.24: Chi Square Test of Association Between Digital Ecosystem Approach to SME Banking and SMEs Wanting their Banks to Act as Market Enablers.

Question	Chi Square	df	P.value	Decision	Association Exist
More SMEs want their banks to act as market enablers that can assist in managing and growing their business.	18.2917	6	0.0055	Reject Null	Yes

Table 5.24 above shows the tests between digital ecosystems being viewed to influence the banks' ability to meet the SMEs unique customers' needs and SMEs wanting their banks to act as market enablers that can assist in managing and growing their business. At the 5% level of significance, a digital ecosystem approach to SME banking is dependent on more SMEs wanting their banks to act as market enablers that can assist in managing and growing their business. Therefore, there is an association between the two survey questions.

5.7.4 Association between perceived profitability of the SME segment of Commercial Banks and research questions four to ten.

Based on the empirical results as presented in Figure 5.25 each of the defined hypotheses were assessed for correspondence to research questions four to ten as specified below.

Ho4 - 10: There is a positive relationship between the SME segment being seen to offer Commercial Banks the opportunity to increase profits or revenue and the below mentioned survey questions.

Table 5.25: Chi square test of association between perceived profitability of the SME segment of Commercial Banks and the below mentioned survey questions.

Table 5.25: Chi square test of association between perceived profitability of the SME segment of Commercial Banks and research questions four to ten

Ho	Question	Chi Square	df	P.value	Decision	Association Exist
Ho4	Digital transformation will have a positive effect on risk management	27.02	16	0.04	Reject	Yes
Ho5	Banks must find innovative ways to create personalized and valuable relationships with SMEs through digital channels.	31.15	12	0.002	Reject	Yes
Ho6	Banks should have a standalone specialist SME department.	29.68	12	0.003	Reject	Yes

Table 5.25: Chi square test of association between perceived profitability of the SME segment of Commercial Banks and research questions four to ten

Ho	Question	Chi Square	df	P.value	Decision	Association Exist
Ho7	The SMEs market is large enough to justify its own marketing penetration strategy.	35.02	12	0.029	Reject	Yes
Ho8	SMEs constitute a significant portion of the overall South African economy	48.44	12	0.0002	Reject	Yes
Ho9	Banks can assist SMEs to develop interdependent business relations with other enterprises.	23.71	12	0.022	Reject	Yes
Ho10	Transparency and standardized information, financial sophistication, reporting capabilities will reduce the perceived riskiness of the SME market	40.31	12	0.031	Reject	Yes

Table 5.25 above shows the tests between the survey question SME segment offering Commercial Banks the opportunity to increase profits or revenue and the above mentioned survey questions. At the 5% level of significance, perceived profitability of the SME segment of Commercial Banks is dependent on the above mentioned survey questions. Therefore, there is an association between how the SME segment is perceived to be profitable and the above mentioned survey questions. To recapitulate, the above survey questions measure digital transformations, internal commercial positioning of the SME department, market segmentation, relationship management and risk management. This implies that South African Commercial Banks will not need to focus on developing the appropriate strategies to engage the SME market for all those scales.

5.8 SUMMARY

This Chapter presented the empirical results of this research. The proposed theoretical framework presented in Chapter Three was empirically tested using quantitative analysis techniques, which included descriptive statistics and inferential statistics being conducted on the collected data. In addition, reliability tests were performed on all the intervening and independent variables using the internal consistency method. The results indicated the following ten factors that could potentially influence the dependent variable of perceived profitability and revenue potential of the SME segment of South African Commercial Banks

- Digital ecosystems
- Digital transformation
- Enabling business environments by Government
- Hybrid service model
- Risk Management
- Market Segmentation
- Relationship managers as holistic advisors.
- Strategic partnerships
- Internal commercial positioning, being distinguishable from the service channel.
- Ecosystem driver model

This Chapter further shows the following key findings:

- The perception from most respondents is that interdependent mutually beneficial business relationships between SMEs and businesses can be achieved through a digital ecosystem approach.
- More SMEs want their banks to act as market enablers that can assist in managing and growing their business.
- Strategic partnerships will be indeed central to banks' digital transformation strategy.
- There is a mismatch between the competency level of the business managers currently servicing the SME market, and the type of relationship SME's require from banks from a relationship management perspective.
- Inferential statistical analysis results showed that educational levels are not associated with how respondents perceive digital transformation.

CHAPTER SIX

SUMMARY AND CONCLUSION

6.1 INTRODUCTION

Research question Q4 and research objective O5 are addressed in this Chapter. The motivation for this study results from banks worldwide being under strengthened pressure resulting from mixed revenue and profitability. Chapter Six will focus on concluding the research study by initially presenting a recap of the research questions and the objectives. Furthermore, the research methodology is concluded resulting in the adjustment of the conceptual framework, which will also serve as a conceptual framework to unlock the revenue potential of the SME segments of Commercial Banks in South Africa. This Chapter then concludes with limitations of the study and recommendations for future research.

6.2 OVERVIEW OF THE RESEARCH

This study investigates a service delivery framework to be implemented as part of the banks SME segment customer management strategy. The main research problem was formulated in Chapter One:

... What service delivery framework is needed to unlock the revenue potential embedded within the SME Segments of Commercial Banks in South Africa.

This research problem was used to formulate a general research question with specific research sub-questions and objectives. The aim was to analyze business banking officials understanding of key concepts, including a digital ecosystem, the dual function that banks can play in creating interdependent mutually beneficial business relationships between SMEs and other businesses and the need to reconfigure SME banking service delivery models.

From the research problem and the literature reviewed, the main objective of the study was:

... To investigate the predominant service delivery framework within the SME Banking Sector, with key focus on current shortcomings and opportunities, and subsequently to develop a new service delivery framework which will comprise of the factors that will effectively assist relationship managers to capture the revenue potential embedded within the SME segment.

The main objective was supported by five secondary research objectives. Table 6.1 presents the objectives and the level to which they were achieved through the study.

Table 6.1: Secondary Research Objectives Achieved	
Ref #	Objectives
RO1	Through a literature review, the prevalent risks embedded within the SME segment were identified
RO2	Through a literature review, the potential business opportunity embedded within the SME segment was identified.
RO3	Through a literature review, the various service delivery components necessary for modern day SME Banking were identified
RO4	Through a literature review, the main factors contributing to the competitiveness and profitability of the SME segment were identified and analyzed. These factors were then used to construct a conceptual framework that will potentially unlock the revenue embedded in the SME segment.
RO5	The survey results, as supported by the body of literature reviewed, were used to construct a conceptual service delivery framework that will assist to unlock the revenue potential of the SME segment of Commercial Banks in South Africa. In addition, the proposed framework was empirically assessed at a leading Commercial Bank in SA with a significant SME portfolio.

RO1 to RO4 were fully achieved through this research study. RO5 was partially achieved. The survey tested respondents' perceptions of factors influencing their perceived profitability and revenue potential of the SME segment. The fact that the respondents' level of understanding was tested and compared to the available literature does not necessarily provide a final framework for verifying the revenue potential embedded within the South African SME segment

6.3 CONCLUSION FROM THE RESEARCH METHODOLOGY

The key concepts that were identified through the literature review and the main objectives of the study were portrayed via a conceptual framework in Chapter Three. The conceptual framework served as a basis of this research, incorporating all factors to be considered and subsequently used to design the survey questionnaire.

The key findings from the literature review are the following:

Digital ecosystems, digital transformation, service models, market segmentation, risk management, relationship managers as holistic advisors, an ecosystem driver model approach by the banks, strategic partnerships and the internal commercial position of SME Banking are all pivotal to unlocking the revenue potential embedded within the SME market segment.

The survey questionnaire was designed and distributed to business banking officials. The sample included: executives, senior managers, specialists, middle and junior management. The sample also included banking officials from the following disciplines, sales, credit, support services and strategy. At a response rate of 74 %, 74 respondents completed the survey. The purpose of the survey was to gather insights from the literature review coupled with the specific outputs outlined by the research questions and objectives to test the perceptions and understanding of key concepts by the respondents. Thereafter, the aim was to design a framework that would assist South African Commercial Banks with a service delivery framework to unlock the revenue potential embedded within the SME market segment, and indirectly promote economic and employment growth within the South African economy. The revised conceptual framework is presented in the next section.

6.4 PROPOSED CONCEPTUAL FRAMEWORK TO UNLOCK THE REVENUE POTENTIAL OF THE SME SEGMENTS OF COMMERCIAL BANKS IN SOUTH AFRICA

After the results of the survey were matched to the concepts that emerged in the literature review, some independent variables were left unchanged while modifications were made to the arguments suggested by other independent variables:

- Digital transformation is pivotal to operational excellence and superior service quality.
- Digital ecosystem is a key differentiating factor for improving customer experience and loyalty.
- Government's role, from the open-ended question responses was highlighted, specifically surrounding the role it plays in creating and enabling business environment.
- A Hybrid service model can assist in meeting the broad servicing needs of the SME segment.
- Market segmentation and advanced sub-segmenting of the SME market, aligned to cost of servicing and future earnings potential.
- Risk management.
- Relationship managers as holistic advisors .
- Strategic partnerships.
- Internal commercial positioning being distinguishable from the service channel.
- Ecosystem driver model

Figure 6.1 gives the adjusted framework where the uniqueness of the SME customer is removed, and incorporated in the market segmentation within the framework.

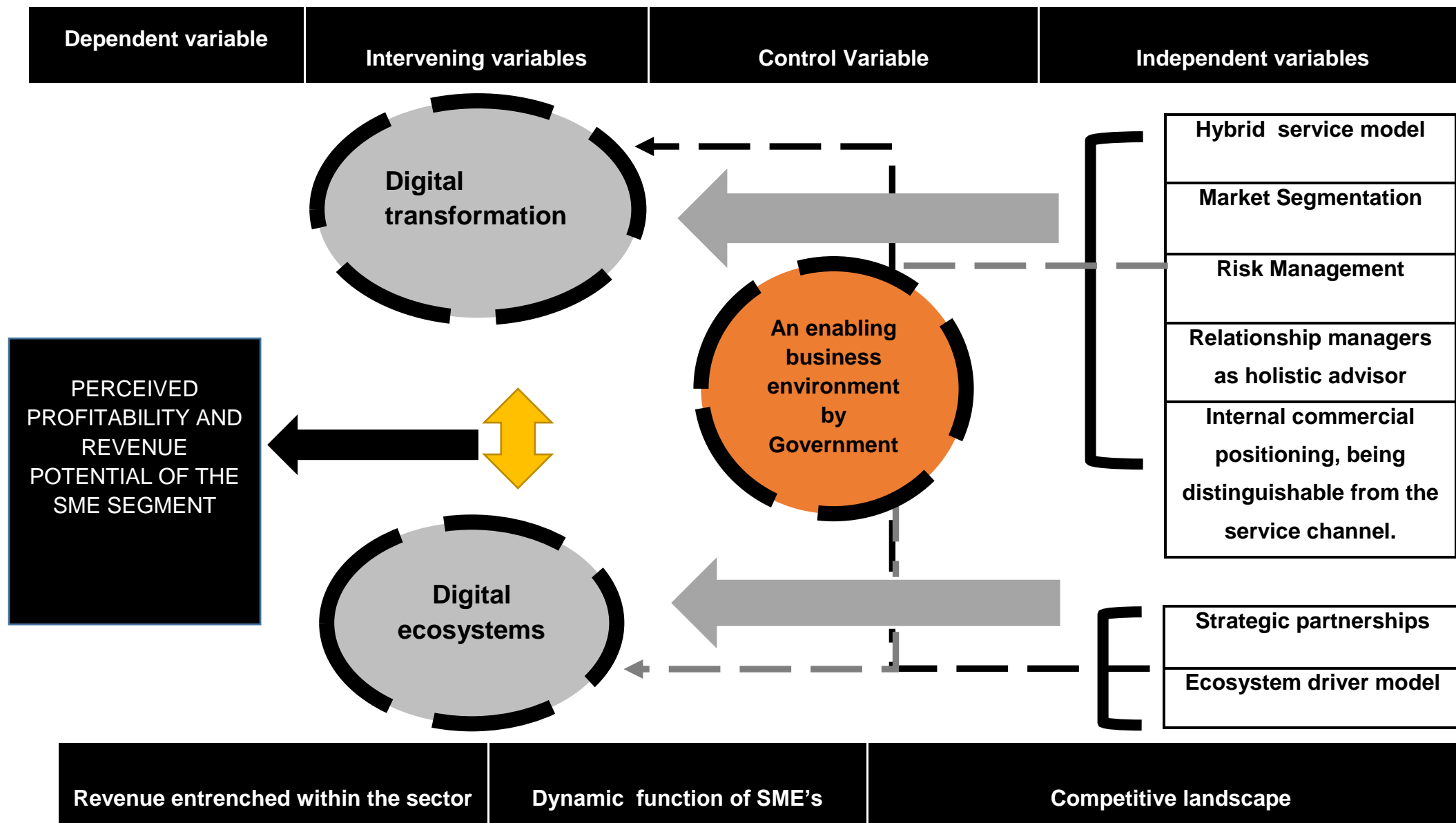


Figure 6.1 Adjusted conceptual framework to unlock the revenue potential of the SME segment of Commercial Banks in South Africa
Source: Author's own construction

6.5 OPERATIONALIZATION OF THE PROPOSED CONCEPTUAL FRAMEWORK TO UNLOCK THE REVENUE POTENTIAL OF THE SME SEGMENTS OF COMMERCIAL BANKS IN SOUTH AFRICA

According to Shuttleworth (2017), operationalization is about setting down exact definitions of each variable, increasing the quality of the results, and improving the robustness of the design. Below, an attempt has been made to illustrate what each of the intervening, controlling and independent variables translate to from an operational standpoint.

- **Digital transformation & digital ecosystems:** is about using digitalization as an enabler to fundamentally change the SME banking landscape. It is centred around acknowledging that banks have masses of SME customers and that many of them will have offers that are of interest to other SMEs, corporates or individuals. What it implies in practice is that banks can create a curated digital SME marketplace whereby the banks customers (either retail, business or corporate) can conduct business with the banks SME customers knowing that these SME suppliers are backed by the bank. The above approach will play a radical transformative role in how banking is conducted in the future.
- **An enabling business environment by Government:** this is important because Government influences SME development through its influence on macro-economic environmental factors such as taxation, interest rates and aggregate demand. Lack of stability in the macroeconomic environment due to political uncertainty, normally leads to a reduction in business confidence. In the process, discouraging long-term investments by SMEs and increasing perceived riskiness of the SME market by Commercial Banks. This was also emphasized by Matthee and Heymans (2013), South African SMEs face additional challenges on the political and macro-economic fronts, originating from volatile currency, political instability and labour unrest. What is needed from Government is certainty surrounding laws and regulations. Unfocused laws are difficult to implement and interpret and carry a high compliance cost for SMEs. Government can implement specific financial sector policy reforms such as SME Government guarantee schemes that will encourage additional

lending to commercially viable SMEs by Commercial Banks; and also reducing the overall tax burden for SMEs due to the possible influence of taxation on SME creation, business structure and growth. Commercial Banks can play a leading role in putting forward the above business cases to Government.

- **Market segmentation and hybrid service model:** a dynamic approach to physical distribution is vital to reducing the cost to serve the SME customer. A segmentation hierarchy can be used to service the multiple niches with an optimized service delivery model, for example the SME market segment can be sub-divided into three as follows;
 - *High growth SMEs* will constitute of high potential and complex SMEs serviced using a combination of a high-touch relationship service model and digital channels. Supplemented by highly skilled business relationship managers and technical specialists.
 - *Steady-state SMEs* will constitute of SMEs that are less complex, above a certain turnover threshold and have been operational for a set number of years. These will be serviced using a medium-touch relationship service model and digital channels. Servicing will take place through a portfolio approach via a dedicated network of business managers, clustered with specialists and professional advisers predominantly through digital channels with a limited number of high-touch interactions per calendar year.
 - *Early phase SMEs* will constitute of SMEs that are at start-up phase and lifestyle businesses that fall below a certain turnover threshold. These will be serviced wholly through digital channels and via the retail branch networks or regional SME hubs to ensure economies of scale.

SMEs will be given the option to pay a premium to move one sub-segment up, if they feel they can afford it. In consideration of Carey and Kerstein's (2013) argument that customers' channel choices will not necessarily always make logical sense. However, going against the customers buying channel would be at the banks' own disadvantage.

- **Risk management:** refers to how SME Banking risk management practices by banks need to be reconfigured to assist SMEs in their risk management practices and also re-aligned with the cost to service the SME customer. For example *Steady-state SMEs* as per above scenario, can utilize a less people intensive credit granting model, that will utilize digital draws of big data, advanced analytics and machine-learning to increase the accuracy of credit risk models used for credit granting, monitoring and capital holding. The above will be made more possible if banks undertook a digital ecosystem approach to SME banking.
- **Relationship managers as holistic advisors:** the relationship manager is an important point of contact for SMEs and should possess certain qualities that potentiate success in the sale of banking products. For example, banks can run an SME relationship manager development programme which will be responsible for recruiting high potential candidates into the SME business management profession, upskill existing business managers within the bank, and map up a clear career path for Relationship Managers operating in the SME sphere in order to improve retention rates. Accompanying such a programme should be an SME Sector insights department, managed and operated by skilled and experienced personnel in advanced data analytics and SME banking management.
- **Strategic partnerships and an ecosystem driver model approach:** This refers to how Commercial Banks will need to be the driver of the ecosystem to SME banking. For example, banks can partner with a Fin- tech company to effectively drive digital transformation and to deliver a digital ecosystem platform for its SME market segment.
- **Internal commercial positioning being distinguishable from the service channel:** for example, Commercial Banks can create a separate SME banking business unit reporting directly to the CEO and not a business unit clustered within retail banking or sidelined within business banking.

6.6 INTERPRETATION AND CONCLUSION ABOUT THE RESEARCH PROBLEM AND RESEARCH QUESTIONS

The main research problem was formulated based on the evidence in the literature reviewed. This highlighted that due to information asymmetry, lack of collateral, evolving needs of the SME customer and the higher cost of serving smaller transactions, Commercial Banks could find it difficult to successfully deploy a service delivery framework that can effectively maximize revenue streams from their SME segment. Centred on this phenomenon, a research gap was identified in terms of the need to develop a service delivery framework to unlock the revenue potential embedded within the SME segment of Commercial Banks in South Africa.

The main research problem was further supported by the secondary research questions.

Table 6.2: Secondary Research Questions Answered	
Ref #	Question
RQ1	The key factors contributing to the perceived riskiness of SME Banking were identified through reviewing the literature.
RQ2	Through the review of the literature, the business potential embedded in the SME segment of Commercial Banks was identified.
RQ3	Through the review of the literature, challenges and key factors contributing to the perceived riskiness of the SME market were identified. This highlighted that the current service delivery framework is not relevant for the evolving SME customer needs.
RQ4	The literature review indicated the prevailing changes required in order to unlock the revenue embedded in the SME segment of Commercial Banks; subsequently a service delivery framework was designed.

6.7 LIMITATIONS OF THE STUDY

The following limitations were identified during this study:

- The samples were drawn from a single Commercial Bank. Consequently, caution should be applied in the interpretation and application of the results of this study and the generalization of the findings.
- Due to some extensive research being done on the subject outside academia, reliance was also placed on some of these resources and;
- Internal commercial position returned a relatively low Cronbach alpha coefficient of 0.48. This score is acknowledged as a limitation of the study,

6.8 RECOMMENDATIONS FOR FUTURE RESEARCH

The survey tested respondents' perceptions of factors influencing perceived profitability and revenue potential of the SME segment of Commercial Banks. In the course of this study, there were opportunities that were identified for further research.

These areas include:

- The recommendation that this study be followed by in-depth focus-group interviews of senior banking executives to gain a deeper understanding of the survey results.
- Research can also be carried out to evaluate the proposed framework in this study across different Commercial Banks.
- Future research can also be carried out from an academia perspective to test the validity of the proposed framework amongst SME business owners, subsequently those findings can be used to improve the framework even more.
- Future research can also be carried out to determine how the SME market segment can be sub-segmented so that they can be effectively micro-targeted using a hybrid service delivery model.
- The adjusted conceptual framework provides a view of factors influencing perceived profitability and revenue potential of the SME segment. The next step would be to use these factors to reconfigure the current SME service delivery model.
- Research can also be conducted to further evaluate which internal commercial positioning of the SME banking business unit is most appropriate.

6.9 CONCLUDING REMARK

The motivation for the research was attributable to SMEs dynamic function in the South African economy, due to their importance in addressing many of South Africa's economic problems given the failure of the formal and public sector to absorb the growing number of job seekers in South Africa. Also, acknowledging that the economy will need to be more enabling of business entry and expansion, with an eye to credit and market access as identified by the NPD. Set against a background of macro drivers encouraging change in the global financial sector, a research gap was identified. These drivers include a changing landscape and banks continuing to report mixed revenue growth and profitability. These were as a result of compressed spreads

due to low demand and increased cost of doing business from increased regulation. The aim was to develop a service delivery framework that would assist banks to provide financial services and products to the SME customer in a cost effective manner, which would lead to improved profitability and increased revenue. In the process, reducing the perceived riskiness of the SME market, while also improving credit and market access for SMEs.

SME growth has the power to dramatically solve the country's high unemployment rate and bring about inclusive growth to the greater society. This will assist in addressing the crisis of under-development in South Africa's economic landscape. A strong rationale therefore exists for the renewal of the SME Sector and the successful integration of SMEs into the main stream economy. The NDP will only be successful if SMEs do indeed contribute to producing 90% of the jobs needed to reduce unemployment to 6% by 2030. By implementing the proposed framework, banks can play a developmental role and contribute to the attainment of the country's economic and social goals.

The innovatory nature of this research has provided a service delivery framework that offers both Commercial Banks and SMEs an opportunity to reduce risk and cost of doing business in South Africa, while at the same time contributing to the successful incorporation of SMEs into the mainstream economy. As a result, they will be able to benefit from a digital ecosystem approach to SME banking because of its ability to bring about network effects.

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APPENDIX A: SURVEY COVER LETTER

Good day respondent

I am studying towards my MBA (Masters in Business Administration) degree at the Nelson Mandela University Business School. The purpose of this study is to develop a service delivery framework to unlock the revenue potential of the Small and Medium Enterprise (SME's) segment, and to further examine the current appetite for a digital ecosystem approach to SME banking. Digital ecosystem, is a digital business growth platform whereby mutually beneficial business relationships take place. The supervisor for my research is Dr Cobus Oberholster.

You are part of our selected sample of respondents whose views we seek on the above-mentioned matter. We would therefore appreciate it if you could answer a few questions. It will not take you more than 20 minutes to complete the questionnaire.

Please note that your participation is wholly voluntary and you are free to decline to participate in this survey. There is no compensation for responding nor is there any known risk. If you do decide to partake in this research, please note that the entire survey process will be done anonymously and that confidentiality is assured. The responses data will only be analysed at an aggregate level.

This study has received the necessary ethics approval from the Nelson Mandela University Ethics Committee and will be conducted according to accepted and applicable national and international ethics guidelines and principles.

If you have any questions or concerns about this research, please feel free to contact Mphenduli Mahlati at 081 7749029, via email at mm.mahlati@gmail.com, or my supervisor at cobus.oberholster@bkb.co.za

Kindly complete the survey by **8 November 2017**.

Thank you for taking the time to assist me in my educational endeavours. The data collected will provide useful information regarding how the SME customer can be serviced in efficiently.

Regards

Mphenduli Mahlati

APPENDIX B: SURVEY

By clicking yes to the survey, you give consent to participate in this survey and you agree that the data you provide can be used for research purposes.

- Yes
- No

Thank you for your willingness to contribute to the success of this research project. To ensure full accuracy of the survey results we would like you to answer the questionnaire carefully and complete all questions.

3 DEMOGRAPHICS

What gender are you?

- Male
- Female

What is your age?

- Below 25
- 25-30
- 31-35
- 36-40
- 41-45
- 46-50
- Above 50

What is the highest level of education you have completed?

- Primary or Secondary school
- Matric
- Diploma
- Bachelor's
- Honours
- Masters
- Doctorate

Have you completed any company specific management development program?

- Yes
- No

Level of management?

- Junior
- Middle
- Senior
- Specialist

Years of experience in business banking?

- < 2yrs
- 2- 5yrs
- 5- 9yrs
- >9yrs

Years of experience in current role?

- < 2yrs
- 2- 5yrs
- 5- 9yrs
- >9yrs

How would you rate your understanding of digital ecosystem?

- Poor
- Fair
- Good
- Excellent

4 SURVEY STATEMENTS

Only one answer is required per question, and the survey will not take more than 20 minutes to complete.

- Please indicate to the best of your knowledge how strongly you agree or disagree with the following statements

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The SME segment offer commercial banks the opportunity to increase profits or revenue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A digital ecosystem will positively influence the banks' ability to meet the unique SME customers' needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The SME market is large enough to justify its own marketing penetration strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SME's are satisfied with the current frontline service model	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Banks in general have a skilled business managers servicing SME's	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Effective use of risk management strategies by SME's will help to reduce the perceived riskiness of the SME market amongst banks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Partnering with Fin -Tech's is a more efficient way for banks to participate in the SME market.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Banks can assist SME's to develop interdependent business relations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
with other enterprises.					

- Please indicate to the best of your knowledge how strongly you agree or disagree with the following statements

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The perceived riskiness of SME financing can effectively be addressed by way of a focused service channel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interdependent mutually beneficial business relationships between SME's and businesses can be achieved through a digital ecosystem approach	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital transformation will have a positive effect on risk management.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SME's are homogenous in terms of their banking needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Banks should have a standalone specialist SME department.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The current product and service offering of banks encourages financial inclusion amongst all SME's.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Banks are able to retain good business managers serving their SME's portfolio.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Effective people management practices by SME's will reduce the perceived riskiness of the SME	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
market.					
Fin- Tech partnerships are a two-way street, and may help traditional banks to capture the revenue embedded in the SME market.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SME's need support to increase revenue streams with simplicity, reliability and speed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- Please indicate to the best of your knowledge how strongly you agree or disagree with the following statements

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Increased levels of SME financing will increase their competitiveness, which ultimately offers banks the opportunity to increase profits or revenue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A digital ecosystem is a key differentiating factor for improving customer experience and loyalty.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Technology has emerged as a competitive tool in driving operational excellence and superior service quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The existing variety of financial products and services offerings are not adequate to meet the needs of all SME's.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SME's are similar to retail	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
customers, therefore SME banking ought to fall within the retail banking environments					
Advanced segmentation approaches to the SME market, based on indicators such as lifestyle, business lifecycle, and channels preference will unlock revenue potential embedded in the segment.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Banks must find innovate ways to create personalised and valuable relationship with SME's through digital channels.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The business manager's role is critical in capturing the revenue potential embedded within the SME market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Effective supply chain management skills and knowledge by SME's will reduce the perceived riskiness of the SME market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Strategic partnerships are increasingly becoming central to traditional banks' digital transformation strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Banks should consider a digital ecosystem approach in meeting the diverse needs of the SME customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- Please indicate to the best of your knowledge how strongly you agree or disagree with the following statements

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Offering financial products and services through a digital ecosystem approach provides banks with the opportunity to increase revenue generated from SME's	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment in digitalisation is not made to cut cost, but rather to increase revenue and profitability.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
New generation SME customers have high expectations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Banks can leverage from their retail offerings to service SME banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A high-touch relationship model is the most appropriate way to service the SME customer.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The average business manager is capable of acquitting themselves effectively in front of the SME customers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A people intensive credit risk (Loan origination, underwriting, monitoring and collections) and service management approach is the best way to managing SME risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More SME's, want their banks to	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
evolve from “product pushers” to holistic advisors.					

- Please indicate to the best of your knowledge how strongly you agree or disagree with the following statements

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
It's economical and best practise to offer every SME customer a business manager.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The average business manager is able to offer sound business advice and insight to the SME customer.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency and standardised information, financial sophistication, and advanced reporting capabilities by SME's will reduce the perceived riskiness of the SME market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SME's constitute a significant portion of the overall South African economy with regards its contribution to the GDP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- Please indicate to the best of your knowledge how strongly you agree or disagree with the following statements

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
In house knowledge management by banks will improves business manager's effectiveness when servicing the SME customer.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
More SME's, want their banks to act as market enablers that can assist in managing and growing their business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- Do you have any additional comments regarding banking services delivery to the SME market?

APPENDIX C: SURVEY QUESTION RESPONSES

DIGITAL TRANSFORMATION

Figure 5.2

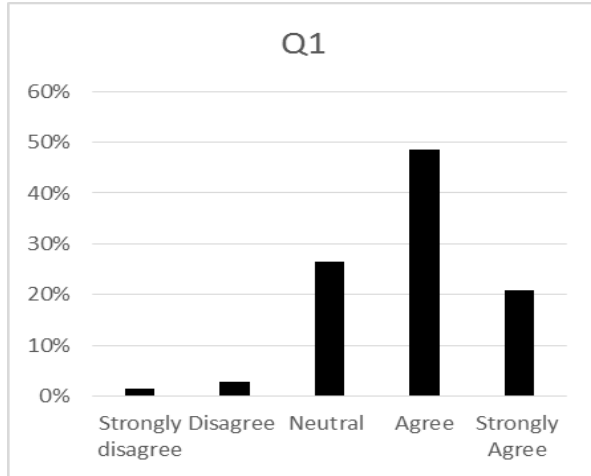


Figure 5.3

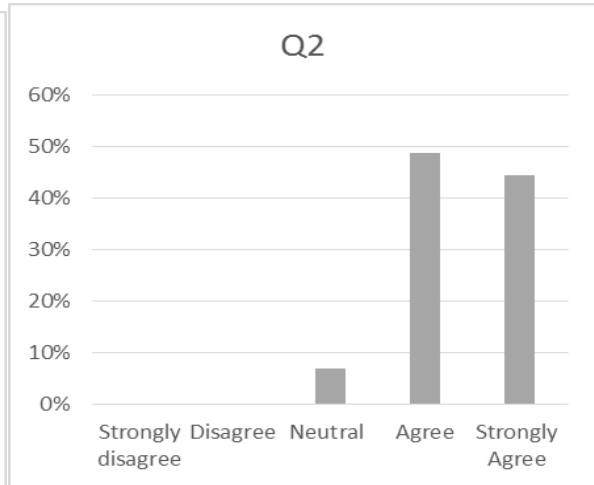


Figure 5.4

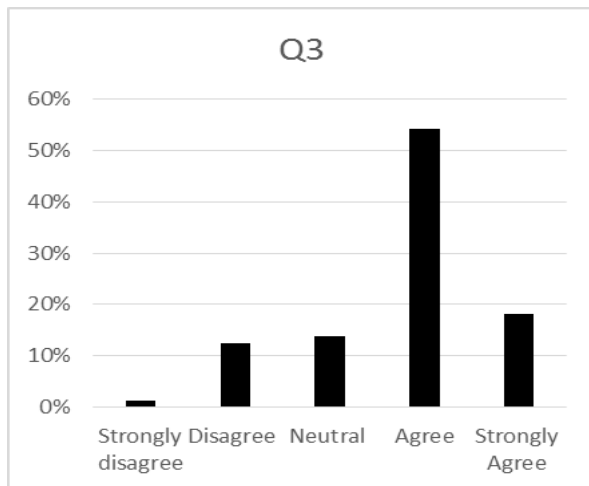


Figure 5.5

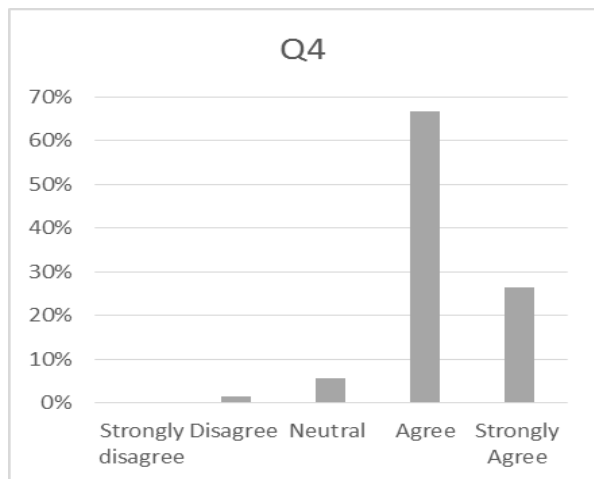
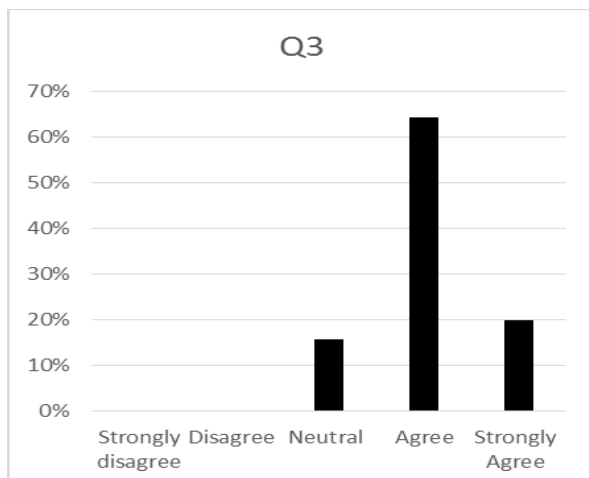


Figure 5.6



SERVICE MODELS

Figure 5.7

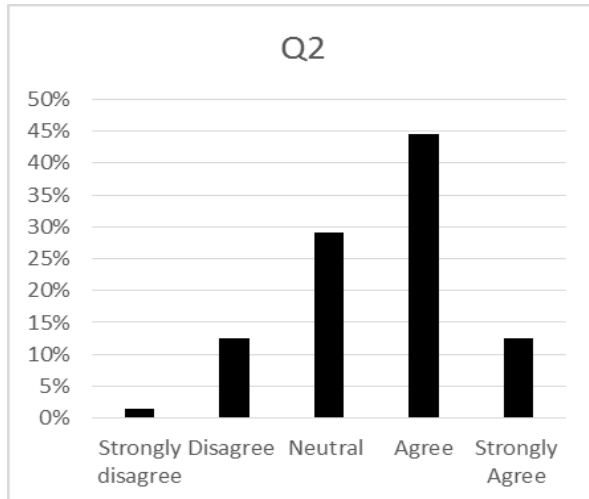


Figure5.8

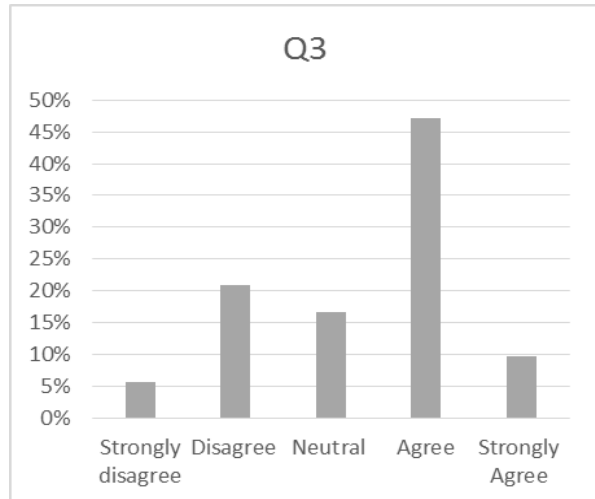
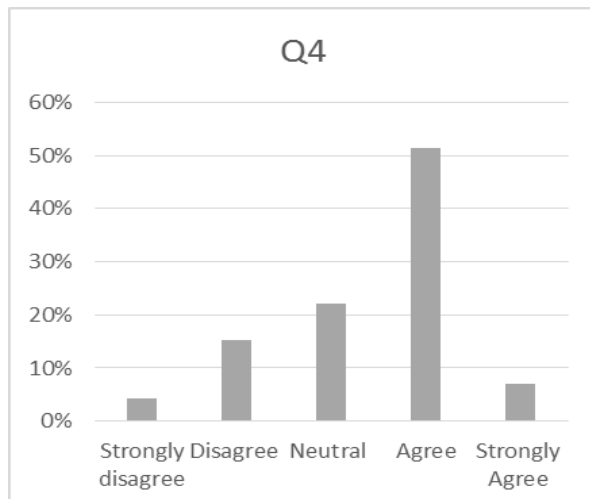


Figure 5.9



MARKET SEGMENTATION

FIGURE 5.11

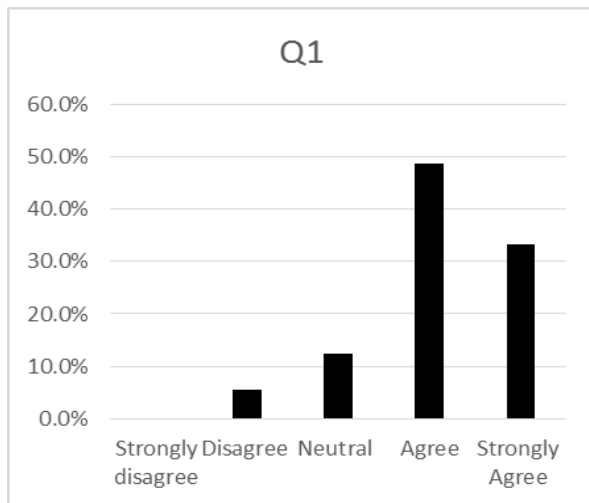


FIGURE 5.12

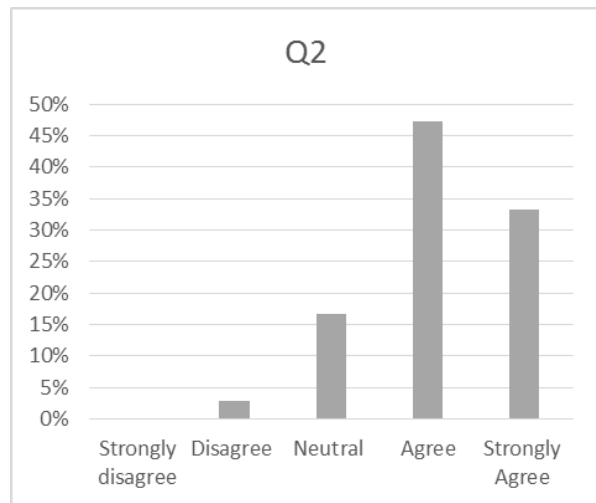


FIGURE 5.13

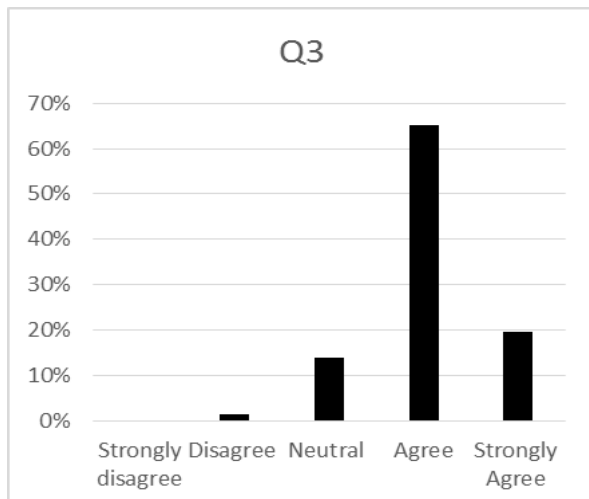


FIGURE 5.14

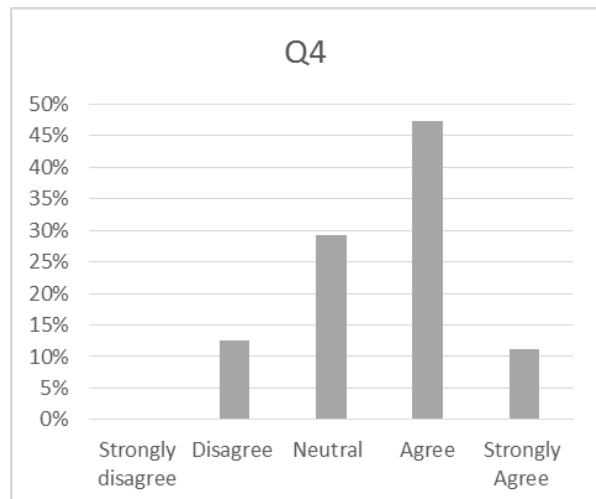


FIGURE 5.15

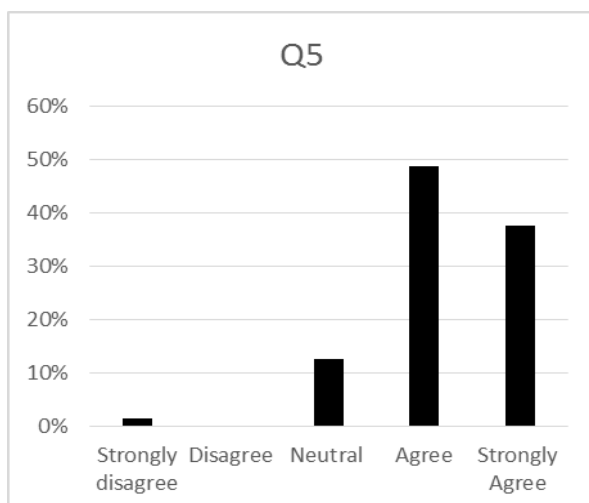
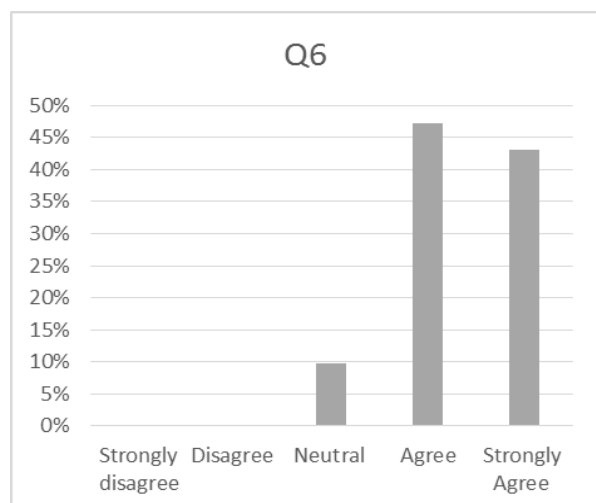


FIGURE 5.16



RISK MANAGEMENT

FIGURE 5.16

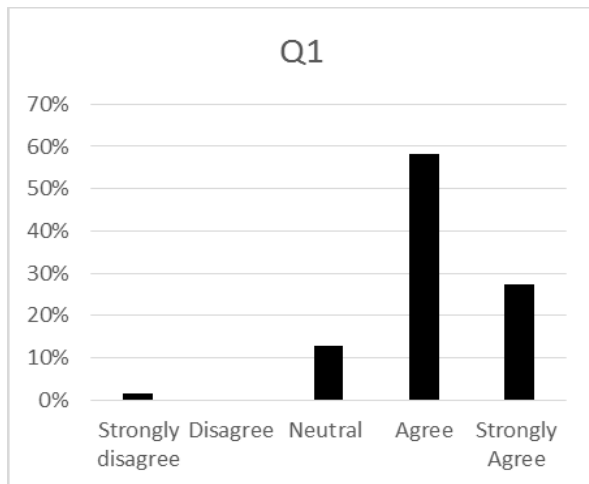


FIGURE 5.17

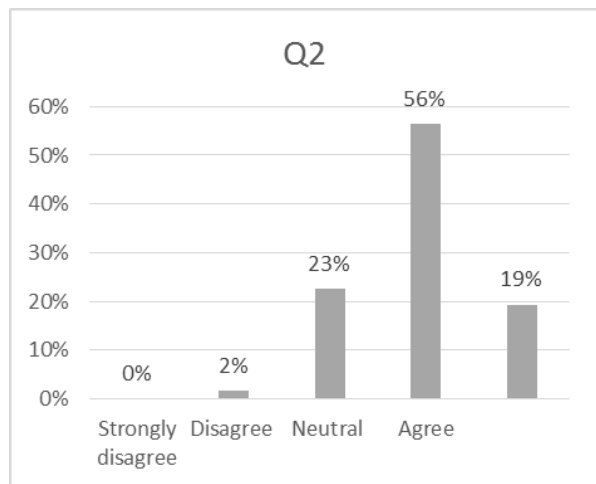


FIGURE 5.18

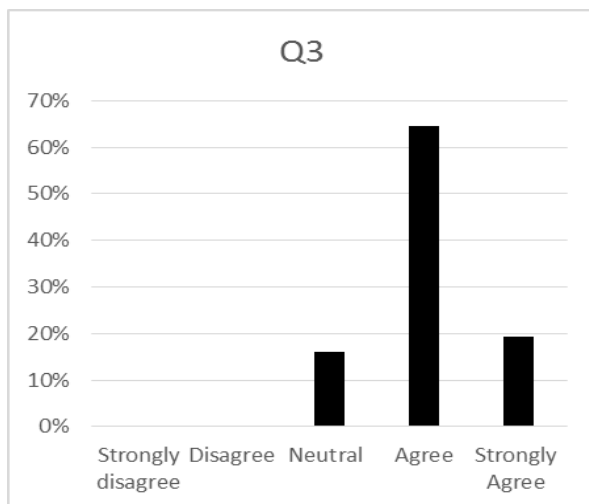


FIGURE 5.19

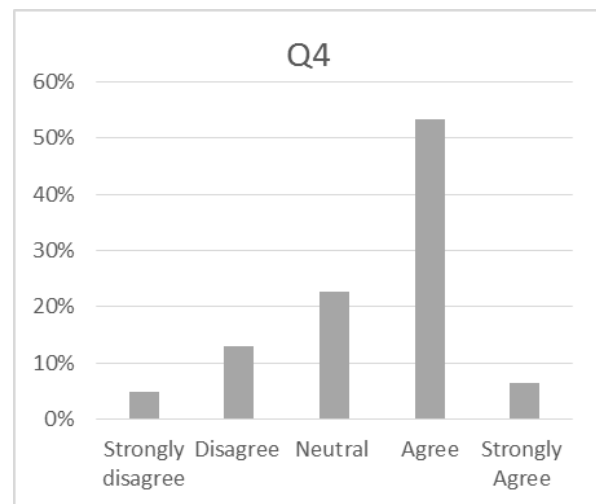
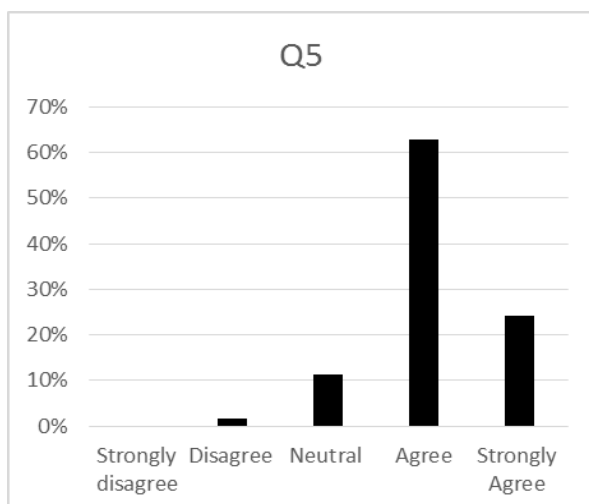


FIGURE 5.20



RELATIONSHIP MANAGEMENT

FIGURE 5.22

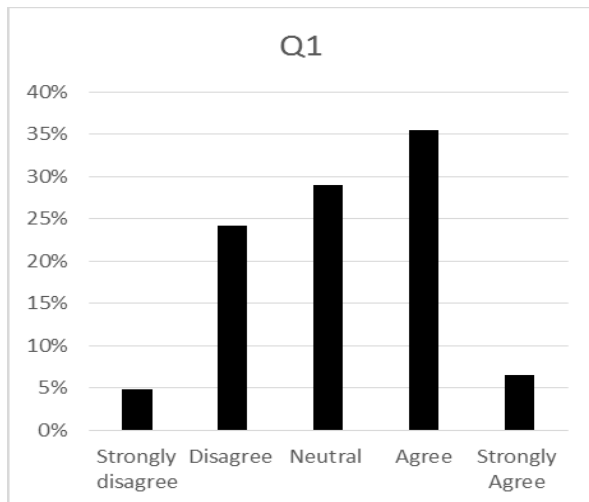


FIGURE 5.23

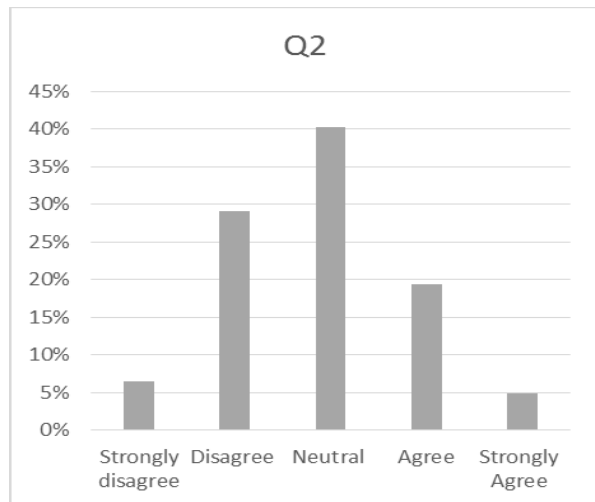


FIGURE 5.23

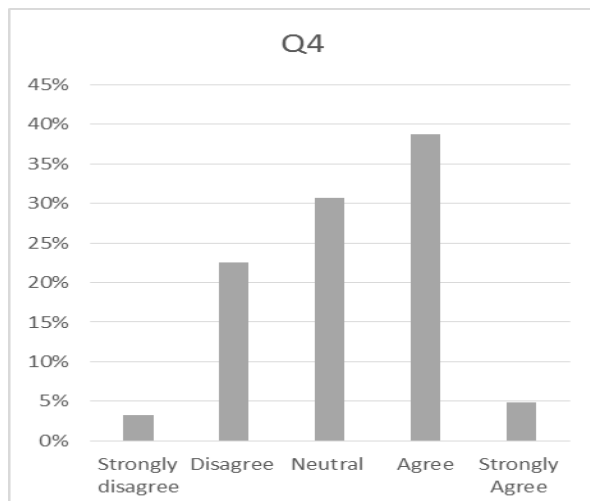
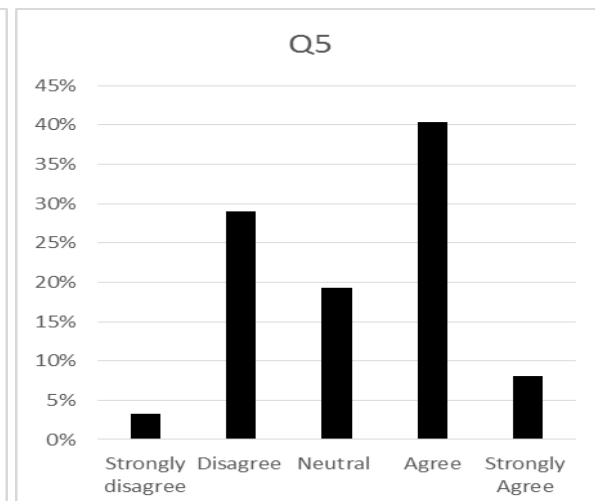


FIGURE 5.24



DIGITAL ECOSYSTEM

FIGURE 5.25

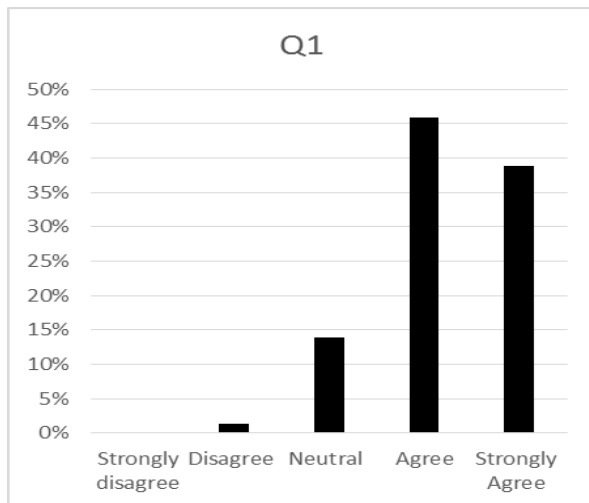


FIGURE 5.26

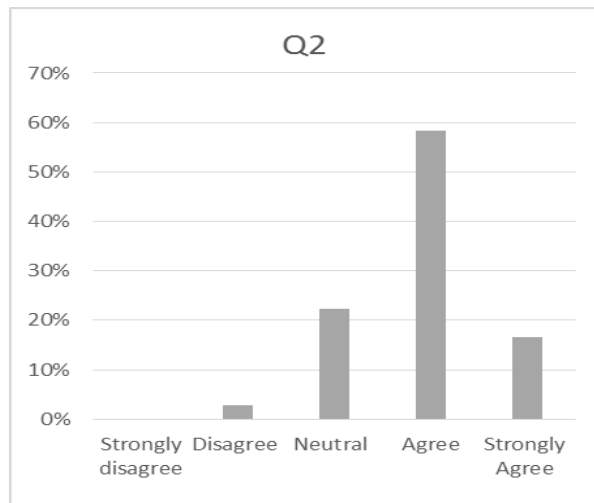


FIGURE 5.27

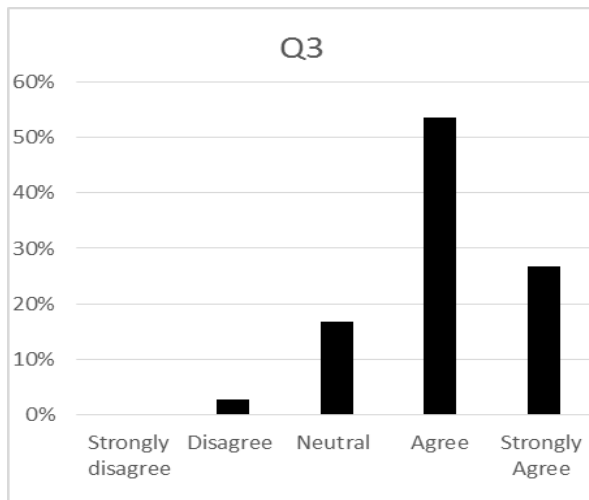
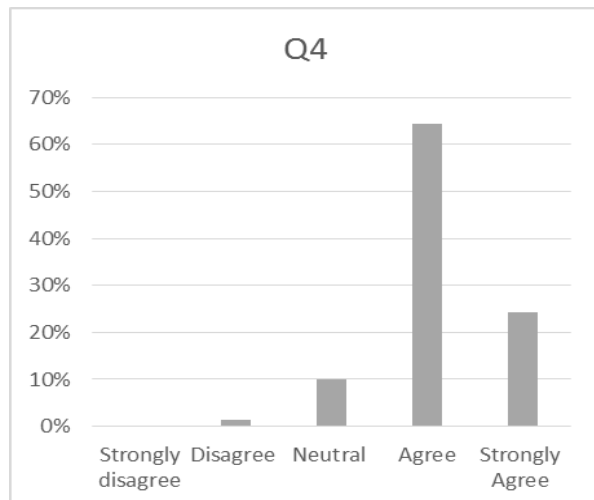


FIGURE 5.28



STRATEGIC PARTNERSHIPS

FIGURE 5.29

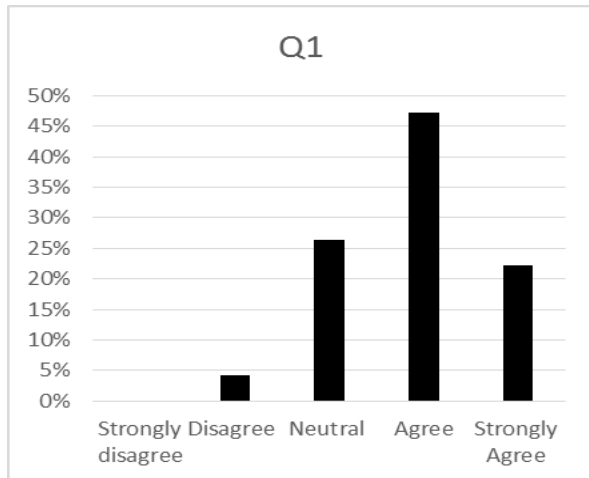
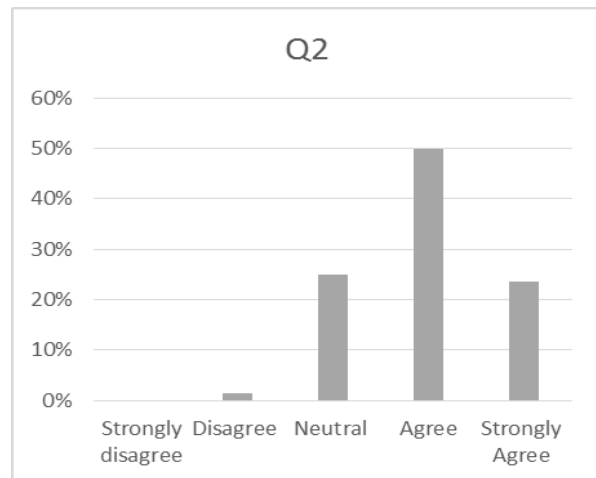


FIGURE 5.30



ECOSYSTEM DRIVER MODEL

FIGURE 5.31

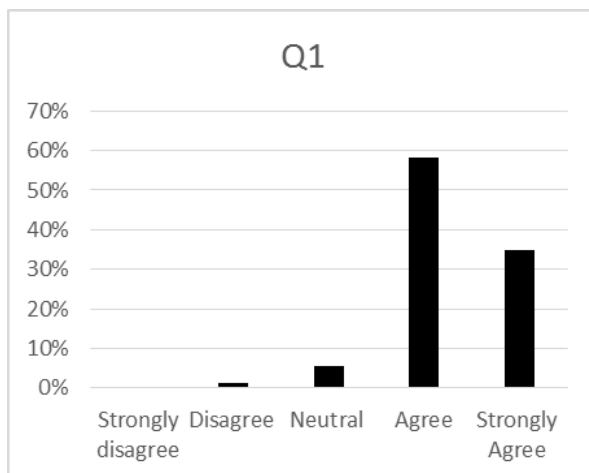


FIGURE 5.32

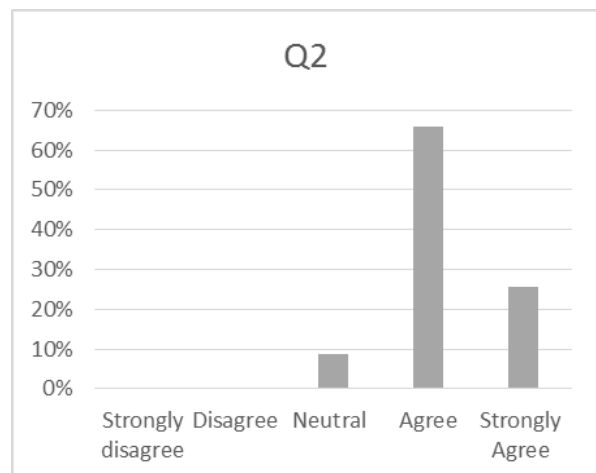
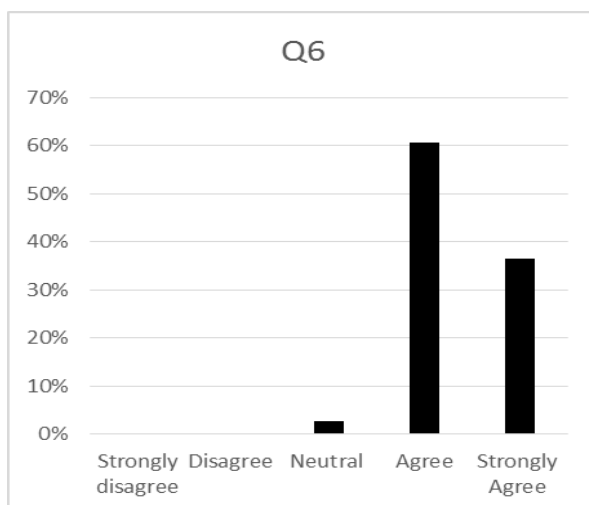


FIGURE 5.33



INTERNAL COMMERCIAL POSITION

FIGURE 5.34

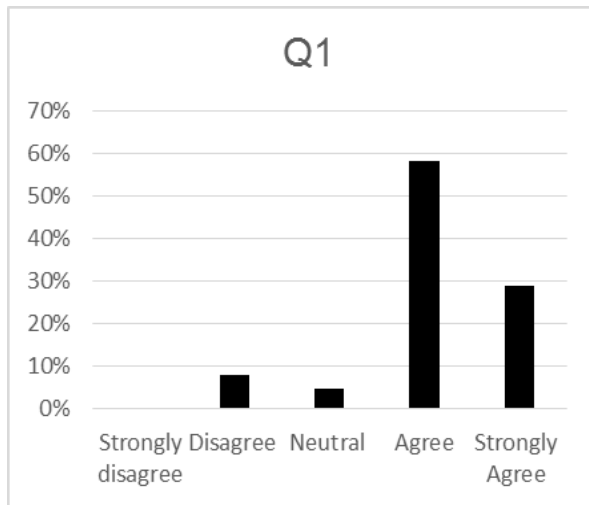


FIGURE 5.35

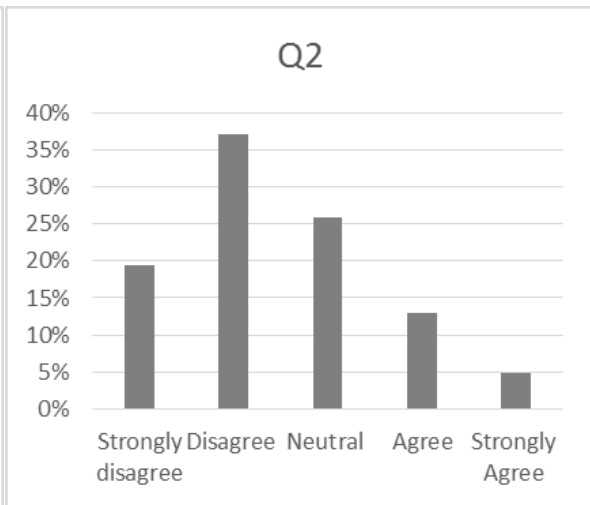
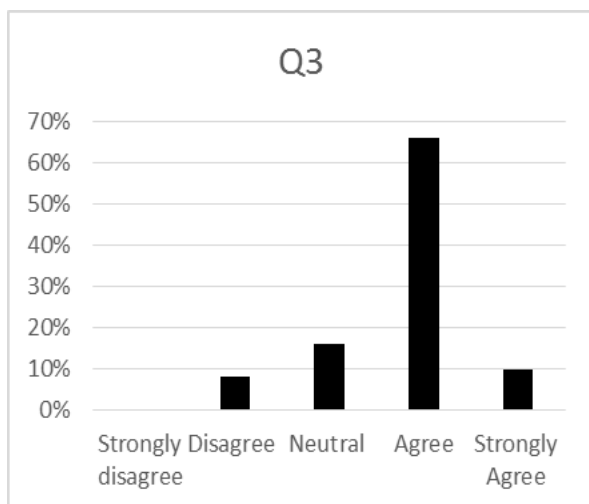


FIGURE 5.36



APPENDIX D: ETHICAL CLEARANCE



Nelson Mandela
Metropolitan
University
for tomorrow

FORM E

ETHICS CLEARANCE FOR TREATISES/DISSSERTATIONS/THESES

Please type or complete in black ink

FACULTY: BUSINESS AND ECONOMIC SCIENCES

SCHOOL/DEPARTMENT: BUSINESS SCHOOL

I, Dr. Oberholster. C

The supervisor for Mahlati. MM 203049721

A candidate for the degree of MASTER OF BUSINESS ADMINISTRATION

With a treatise/dissertation/thesis entitled

THE DEVELOPMENT OF A SERVICE DELIVERY FRAMEWORK TO UNLOCK THE
REVENUE POTENTIAL OF THE SME SEGMENT OF COMMERCIAL BANKS IN SOUTH
AFRICA

Considered the following ethics criteria (*please tick the appropriate block*):

	YES	NO
1. Is there any risk of harm, embarrassment or offence, however slight or temporary, to the participant, third parties or to the communities at large?		No
2. Is the study based on a research population defined as 'vulnerable' in terms of age, physical characteristics and/or disease status?		No
2.1 Are subjects/participants/respondents of your study:		
(a) Children under the age of 18?		No
(b) NMMU staff?		No
(c) NMMU students?		No
(d) The elderly/persons over the age of 60?		No
(e) A sample from an institution (e.g. hospital/school)?		No
(f) Handicapped (e.g. mentally or physically)?		No
3. Does the data that will be collected require consent of an institutional authority for this study? (An institutional authority refers to an		No

organisation that is established by government to protect vulnerable people)		
3.1 Are you intending to access participant data from an existing, stored repository (e.g. school, institutional or university records)?		No
4. Will the participant's privacy, anonymity or confidentiality be compromised?		No
4.1 Are you administering a questionnaire/survey that:		No
(a) Collects sensitive/identifiable data from participants?		No
(b) Does not guarantee the anonymity of the participant?		No
(c) Does not guarantee the confidentiality of the participant and the data?		No
(d) Will offer an incentive to respondents to participate, i.e. a lucky draw or any other prize?		No
(e) Will create doubt whether sample control measures are in place?		No
(f) Will be distributed electronically via email (and requesting an email response)?		No
<p>Note:</p> <ul style="list-style-type: none"> • If your questionnaire DOES NOT request respondents' identification, is distributed electronically and you request respondents to return it <i>manually</i> (print out and deliver/mail); AND respondent anonymity can be guaranteed, your answer will be NO. • If your questionnaire DOES NOT request respondents' identification, is <i>distributed via an email link and works through a web response system</i> (e.g. the university survey system); AND respondent anonymity can be guaranteed, your answer will be NO. 		

Please note that if **ANY** of the questions above have been answered in the affirmative (YES) the student will need to complete the full ethics clearance form (REC-H application) and submit it with the relevant documentation to the Faculty RECH (Ethics) representative.

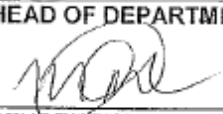
And hereby certify that the student has given his/her research ethical consideration and full ethics approval is not required.


SUPERVISOR(S)

28/08/2017
DATE


HEAD OF DEPARTMENT

26/09/2017
DATE


STUDENT(S)

2017/08/25
DATE

Please ensure that the research methodology section from the proposal is attached to this form.

Please note that by following this Proforma ethics route, the study will NOT be allocated an ethics clearance number.

APPENDIX E: TURNITIN SIMILARITY REPORT

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MBR5TR: Business Research Project

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APPENDIX F: PERMISSION TO SUBMIT ASSESSMENT COPIES.

D/116/13 (11-07-2013_16h35)
D/116/13 (28-02-2013_17h31)
(formerly D/823/05)

NELSON MANDELA UNIVERSITY

PERMISSION TO SUBMIT A TREATISE/DISSERTATION/THESIS FOR EXAMINATION

NAME: Mphahleli Muedi mahleli

STUDENT NUMBER: 203049721 candidate for
the

DEGREE: Master's in Business Administration in the

Business & Science
FACULTY: Economics SCHOOL/DEPARTMENT: Business School

has today submitted his/her treatise/dissertation/thesis for examination.

1. Has this treatise/dissertation/thesis been submitted with your knowledge and support?

YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
---	-----------------------------

(Please tick the appropriate response clearly)

2. Submission Recommendation:

A. Permission Granted for submission for examination	<input checked="" type="checkbox"/>
B. Permission Granted for submission for examination with reservations	<input type="checkbox"/>
C. Submission against advice of Supervisor	<input type="checkbox"/>

(Please tick only the applicable response clearly)

3. Did the candidate's research involve animal experimentation or human subjects as defined in the Nelson Mandela University Policy on Ethics in Research?

YES ☐ NO ☒
(Please tick the appropriate response clearly)

If YES, has clearance been obtained from the relevant Ethics Committee?

YES

NO

(Please tick the appropriate response clearly) If YES, kindly provide ethics clearance reference number)

Name of supervisor:

Dr Cobus Oberholster

Signature:

Date:

01/12/2017

Name of Co-supervisor:

Signature:

Date:

APPENDIX G: DECLARATION OF ORIGINALITY OF WORK

NELSON MANDELA UNIVERSITY

DECLARATION BY CANDIDATE

NAME: Mphenduli Mncedi Mahluti

STUDENT NUMBER: 203049721

QUALIFICATION: Master of Business Administration

TITLE OF PROJECT: _____

A service framework to unlock the
revenue potential of the SME segments
of commercial banks in South Africa

DECLARATION:

In accordance with Rule G5.6.3, I hereby declare that the above-mentioned treatise/ dissertation/ thesis is my own work and that it has not previously been submitted for assessment to another University or for another qualification.

SIGNATURE: 

DATE: 30 November 2017