# Growth Cap

*Building SME-focused capacity*

SEPTEMBER **2014**

PROJECT TECHNICAL NOTE

# ACCREDITING SMALL BUSINESS BANKERS

**By Tim Atterton**

## ECONOMIC BACKGROUND AND CONTEXT

Success in the SME segment is considered to be critical for future profit growth within banks. Many banks have flagged their intention to focus on this sector as a strategic priority. However, research by Macquarie suggested that ". . . products and services are extremely difficult to differentiate in the SME marketplace and, as a result, the nature and quality of the bank : SME relationship has become the key determining success factor in terms of gaining and maintaining profitable market share in the crucial, but highly competitive premium SME market."[1] The Macquarie research highlights that: "perceptions of SME banking expertise are critical"; "having a reputation for SME banking expertise is critical"; and "for many SMEs, the banker is more important than the bank"; but, also, cautions pertinently that "having a relationship manager does not guarantee having a relationship".

Clearly, a symbiotic relationship exists between banks and SMEs. Banks need a strong and, hopefully, expanding pipeline of maturing SMEs to support growth in commercial lending and other financial services and SMEs need access to financial services to underpin their entrepreneurial endeavours and fuel their growth ambitions. The nature of this relationship is a critical determinant of success for both parties. The most common banking response to the above has been the introduction of SME relationship managers(RMs). Broadly, these RMs provide: familiarity with an SME when financial support is required; a mechanism for monitoring ability to repay; cross-selling opportunities; a conduit for complaints and problem resolution; and the offer of general business advice. Essentially, the existence of a RM simply provides the bank with the right to quote for any new business on offer, and increase their ability to successfully package a suitable solution (although, the prevalence of Kenyan SMEs to 'multibank' tend to suggest that relationship banking may not working in this regard). Evidence of the success (or otherwise) of mobilising RMs from the SME's perspective may be provided by the fact that they rarely, if ever, name their bank RM as a trusted source of business advice or a strategic partner in their business development process.

1 *'Small Business: River of Gold'* Macquarie Research Equities, October 2002.

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## About GrowthCap

Over the past few years FSDK has been at the forefront of SME banking development through conducting market assessments and studies in areas such as trade finance and SME equity funds, as well as supporting development of the credit reference bureau. Through its partnerships with its Action Research Partners (ARPs), FSDK's GrowthCap initiative is supporting adoption of SME best practices by individual financial service providers.

This paper is part of a series of Technical Notes and Resource kits that are being developed out of work with the ARPs. These provide detailed information about the best practices and are intended for use by financial service providers and those supporting such institutions which are entering the SME market.

## Abstract

This Technical Note has been drafted to stimulate discussion amongst the wider Banking Community in Kenya and, also, its various stakeholders; including but not exclusively: the Central Bank of Kenya; the Kenyan Institute of Bankers; the Kenya Institute of Monetary Studies; the Kenya College of Banking & Finance; and Strathmore University. It is anticipated that this paper will stimulate critical debate and might lead to constructive and potentially industry-defining innovation in the SME Banking arena.

FSD Kenya
Financial Sector Deepening

Growth Cap
Building SME-focused capacity


# SMALL BUSINESS BANKER

> “Accreditation is the formal recognition that an individual (or organization) has achieved a defined level of competence, skill and knowledge in a specific role and will continue to perform to this standard there-after

However well-intentioned, it is apparent that there are a range of conceptual, operational and (even) psychological flaws in the conventional approach to SME relationship management. Any perceived benefits that might be accrued would seem to flow towards the bank rather than the SME. Bluntly, research demonstrates that most SMEs are sceptical as to their bank's motives in attaching a RM to their account. They doubt that the individual RM can do much to help them beyond the supply of financial products and services. This scepticism is based upon a range of SME perceptions or prejudices that include:

i. Success for banks in the SME market is largely determined by scale. All-too-often, RMs are expected to oversee large portfolios of SME customers; and resulting workloads render any meaningful relationship impossible.

ii. Inevitably, the SME owner-manager perceives their RM to be an agent of the bank, whose primary function is to safeguard the bank's financial position. Thus, they are nervous about full transparency and the total disclosure of information that, by definition, is the basis of any robust relationship.

iii. Conventional banker training and information needs tend to encourage bankers to ask the wrong questions of SMEs and all-too-often disregard many aspects of a business that owner-mangers hold in high regard. A simple but compelling illustration of this is the banks' reluctance to place value on intangible assets which, often, comprise a significant component of any net worth inherent within an SME.

iv. On the whole, good SME bankers tended to be either transferred or promoted quickly. This frustrates the SME, who struggles to build any continuity of relationship based on personal trust and accrued understanding of their business.

v. There is a perception amongst SMEs that banks are ‘trigger-happy’ and are reluctant to remain supportive through periods of temporary trading difficulty. This is particularly relevant to growing SMEs that are most likely under-capitalised and possibly over-trading. In this situation, bankers need to make accommodation for short-term financial hiatus in the belief that the SME will prevail over time. The confidence to adopt this approach can only be established through personal trust and a sound understanding of business circumstances.

vi. Many SME owner-mangers perceive ‘relationship’ to be a euphemism for ‘selling’ with no particular benefit flowing in their direction.

vii. Many SME owner-mangers believe that career bankers live in a different life-world and do not possess real empathy and understanding of the SME situation

viii. Many SME owner managers believe that their bank and bankers judge and assess their business performance against criteria that differ from their own. Also SMEs are acutely aware that their RM rarely makes lending decisions. They are sceptical as to the actual influence that their RM can bring to bear with upstream credit officers.

ix. Most SME owner managers are lacking in financial literacy and do not understand basic financial principles (particularly their lack of appreciation for the need to build balance sheet strength).

x. Fundamentally, many SME owner-managers doubt the RM's ability and competence to add-value to their operations in any meaningful way beyond the provision of finance that is available from multiple sources.

## › STRATEGIC RESPONSES

Many of the above ‘realities of SME banking relationships’ can only be addressed by banks embracing a more sophisticated approach to segmenting the SME market and, most probably, revising their SME-focussed business models. In this respect, the Macquarie Research referred to above, suggests that "most of the profits come from a small handful of SME customers" and "the most attractive SME customers are the 5% considered high growth". This highlights the need for much more intensive relationship management approaches targeted at a much smaller number of SME customers whilst, reducing the opportunity cost of doing-business with the mass SME market. Generally, it is believed that an effective RM may well be responsible for a fairly large portfolio of SME relationships (perhaps >200) as long as no more than ~say 20 are actively requiring attention at any specific point in time.

Other issues raised above relate more to the perception of bankers by SMEs, and the nature of the relationship. A variety of different approaches have been adopted by banks to breakdown these (at best) indifferent and (at worst) negative perceptions and change the attitude of SMEs towards their bankers. These include truly disastrous attempts to recruit former business owners and convert them into SME bankers. However, one of the most compelling and successful approaches has been some banks' commitment to deploying only 'SME-accredited' bankers to work with their customers and including a pledge to this effect in their respective brand promises or SME Codes of Conduct. By training and deploying only 'accredited SME bankers', the host bank de facto is sending out an incredibly powerful message to the SME community. Either explicitly or implicitly, a bank that adopts this approach is saying that the SME sector matters and deserves the highest level of professional service and support.

## ACCREDITATION OF SME BANKERS

The concept of accrediting SME bankers begs the question: 'who' do we accredit to do 'what'? To be successful, any accreditation model adopted must be: 'outwardly facing'; address the 'needs & wants' of the SME customer and address their (sometimes) negative perception of bankers. Accordingly, accreditation needs to be targeted at all frontline SME staff demonstrating the bank's commitment to the SME relationship. Fundamentally, accreditation provides the SME bank and banker with greater recognition and credibility especially, if deployed as a key component of a wider SME Banking Code of Conduct.[2]

As stated, accreditation should relate to the banker: SME interface (and, specifically, the ability of the SME banker to add-value to the relationship), rather than the technical aspects


of SME lending. It is anticipated that other, complementary mechanisms will address technical banking competence in areas of loan assessment and credit management.

**One of the most compelling and successful approaches has been some bank's commitment to deploying only 'SME accredited' bankers to work with their customers.**

Broadly, an effective SME Banker will demonstrate insight into:

- The culture of the smaller firm; i.e. the influence of ownership, customer dependency, risk of personal assets, informality, flexibility and the interaction of business and personal life-styles.
- The different management techniques adopted by smaller firms; i.e. the integration of functions [holistic perspective], limited time and resources and back-filling.
- The short-term and strategic decision-making horizons within the smaller firm.
- The implications of constant fire-fighting and management of change.
- The type of relationships that smaller firms have with their advisors and stakeholders.

These various insights should by necessity underpin any accreditation model as they lead to empathy and understanding of the SME life-world. In addition, other SME-related competencies for bankers include the ability to:

- Appreciate the process of development within the smaller, independent business.
- Build relationships based upon trust, respect and the full disclosure of information with their commercial clients.
- Add real and definable value to the business and the ability to demonstrate that mutual benefit attaches to the relationship over and above the offer of financial products.

2 See *GrowthCap Technical Note 'Banking – SME Codes of Conduct* September 2014

**Overall, the essence of industry defining SME relationship management is demonstrating the ability to become a strategic partner in the business development process by satisfying the information, strategic and (perhaps) psychological needs of the SME customer.**

- In this respect, the most progressive and effective banks servicing the SME sector have realised that relationship bankers need to demonstrate the ability to:
- Empathise with commercial customers; and evaluate the health of an SME from a holistic perspective that extends beyond simplistic analysis of financial statements.
- Appreciate the broad criteria associated with a healthy business and, in particular, the value of non-tangible assets.
- Identify key dynamic performance indicators that provide genuine insight into the current performance and future potential of a business.
- Calculate real working capital requirements and true funding and borrowing needs of a business in order to advise on the concept of controlled incremental growth and the management practices required to build real net worth within a business over time.
- Apply analytical and problem solving skills and differentiate between symptoms and root causes of problems.
- Determine the inherent potential within a business; and make adequate judgement of both person and business proposition.
- Identify thresholds and barriers to growth understand the process of business development and appreciate the key factors which influence change.
- Establish appropriate stewardship and monitoring arrangements.
- Promote the bank; and explain its information needs.
- Establish sound personal relationships with the SME customer that are based upon trust and the full disclosure of information.
- Add value to business operations and improve performance.
- Motivate and influence positive changes in behaviour.
- Provide timely and constructive guidance to customers in terms of the broad trading environment and, also signpost them to relevant sources of external advice and assistance.

Overall, as stated above, the essence of industry defining SME relationship management is demonstrating the ability to become a strategic partner in the business development process by satisfying the information, strategic and (perhaps) psychological needs of the SME customer.

**Note:** The above skills, behaviours and competencies are in addition to traditional risk analysis and credit management capability that bankers need to apply.

It is important that any SME banker accreditation model be underpinned by a robust SME banker competency framework. A number of frameworks exist. See the Annex for an example. Formal accreditation is founded upon the demonstration of these competencies in the workplace.

## ACCREDITATION PROCESS AND METHODOLOGY

An effective SME banker accreditation process will most likely comprise a combination of formal training, on-the-job learning and continuous professional development. Assessment needs to be practical and non-intrusive in respect of workplace demands and performance; and would most probably include a combination of:

i. Compulsory participation in custom-designed training workshops.
ii. A written knowledge test (most likely multiple choice) designed to assess theoretical understanding of areas like the prevailing macro-environment, business and contract law, Foreign Trade, accounting etc.
iii. Possibly, a short project and / or role-play exercise.
iv. Possibly, real-time on-the-job assessment (subject to client confidentiality).
v. 360o feedback whereby, SME customers are invited (perhaps anonymously) to evaluate the performance of their banker, in particular, the extent to which their banker was able to add-value to their business performance and help to advance their commercial goals.
vi. Satisfactory annual appraisal from a Line Manager or Head of SME Banking.
vii. An integrated programme of SME-related continuous professional development (CPD).

It is anticipated that meaningful SME Banker Accreditation would typically take 12 to 18 months from appointment for an inexperienced practitioner transferring from a non-SME role. Accordingly, it follows that more sophisticated approaches to establishing an 'SME career path' inside banks needs to be adopted to support the accreditation process and justify associated costs. De facto, this would require banks to raise the profile and kudus of SME banking and move away from the perception that SME banking is a precursor to a career in larger commercial or corporate banking. In this regard, it is interesting to note that many of the best regarded SME banks retain and promote their managers within their SME operations and commit mangers to individual SME relationships for a pre-determined period (usually, no less than three years).


## THE BENEFITS OF ACCREDITING SME BANKERS TO BANKS & SMES

The main benefits that would accrue to the bank would be:

- Significantly enhanced corporate profile and sustainable competitive advantage in the SME marketplace.
- Greater incidence of growing the bank's SME portfolio and profits from an existing customer base; rather than poaching higher risk business from competitors.
- Reduced haemorrhaging of premium SME customers to competitors.
- A resilient and growing SME customer portfolio comprising a high (and expanding) percentage of growing businesses.
- Greater 'share of banking spend' from existing customers i.e. single supplier relationships.
- More 'cross selling' opportunities.
- Higher incidence of unsolicited new business and referrals from satisfied customers.
- Reduced portfolio at risk and lower incidence of SME accounts under review.
- Better information flow between bank and SMEs.

**An effective SME banker accreditation process will most likely comprise a combination of formal training, on-the-job learning and continuous professional development.**


- Lower transaction costs due to greater staff competence.
- Retention of better staff; and higher levels of staff engagement.
- Enhanced ability to attract better staff from competitors.
- Improved liquidity and profitability.

The main benefits that would accrue to the SME would be:

- Real and enhanced confidence in (and regard for) their banker and banking relationship.
- Access to informed and impartial advice and support from an accredited professional.
- Greater levels of financial management acumen and financial literacy.
- Additional comfort and security within their banking relationship.
- Reduced feeling of isolation.
- Reduction in levels of personal stress.
- Confidence to plan growth within their business operations.
- Stronger and more resilient businesses with demonstrable net worth.

## ACCREDITING BODIES

A range of options exist for formal accreditation either on an 'open' or 'bank-specific' basis. Clearly, external accreditation carries additional weight and gravitas. In this regard, international APEX organisations like the Institute of Financial Services (IFS) in the United Kingdom or Chartered Bankers in Scotland might be considered as potential accrediting bodies. Locally, the Kenya Institute of Bankers, the Kenya Institute of Monetary Studies and the Kenya College of Banking & Finance may be willing strategic partners; ideally, with the encouragement of the Central Bank.

Alternatively, individual banks may elect to design and implement their own, in-house SME Banker Accreditation Programme. In this event, the bank may decide to collaborate with a reputable Institute of Higher Learning (for example, Strathmore University) to: validate the authenticity and robustness of the process; provide selected training input; undertake aspects of formal assessment; and maintain standards without prejudice.

**Note:** This approach was adopted by National Westminster Bank PLC in the United Kingdom during the early 2000s. In part, this approach enabled Nat West to become the UK's leading SME bank with ~1 million SME customers. There is a fundamental difference between assessment and award. The concept suggested above focuses on establishing a process for accreditation. In due course, a formal award or qualification could be attached to this process.

**Next Steps**

This Technical Note has been drafted to stimulate discussion amongst the wider Banking Community in Kenya and, also, its various stakeholders; including but not exclusively: the Central Bank of Kenya; the Kenyan Institute of Bankers; the Kenya Institute of Monetary Studies; the Kenya College of Banking & Finance; and Strathmore University. It is anticipated that this paper will stimulate critical debate and might lead to constructive and potentially industry-defining innovation in the SME Banking arena.

## ANNEX

### AN EXTERNALLY FOCUSSED SME RELATIONSHIP COMPETENCY FRAMEWORK FOR BANKERS

Role /Purpose: The role of a small business relationship manager is to establish and maintain long-term 'relationships of value' with an identified group of small businesses that are based upon trust, transparency, respect and the full disclosure of information; thereby managing risk and maximizing commercial benefit to both parties. The table below presents the core competencies and associated skills abilities and attributes associated with this role.

| Core Competency | Required Skills, Abilities & Attributes |
|---|---|
| 1. Empathy with the World of Small Business. | ✓ Appreciates the broader economic and market context within which Kenyan and African small businesses operate.<br>✓ Understands the complexity and nuances of the entrepreneurial personality and takes into account during day-to-day interactions.<br>✓ Demonstrates insight into the culture of the small business and the pressures and challenges that impact upon owner-managers.<br>✓ Appreciates the management methods and approaches adopted through necessity by small businesses.<br>✓ Understands the short-term decision-making horizons adopted by small businesses. |
| 2. Personal Skills. | ✓ Likeable, enthusiastic professional, seeks opportunity, takes initiative & holds self accountable for outcomes.<br>✓ Drive, ambition, action-orientated and personal need for achievement.<br>✓ Open, honest, fair, patient and consistent in their SME customer interactions.<br>✓ Individual presence and gravitas.<br>✓ Establishes and maintains relationships that are based upon trust, mutual respect and the full disclosure of all relevant information. |
| 3. Analytical Skills. | ✓ Applies judgement and makes sound decisions whilst demonstrating integrity.<br>✓ Seeks to understand customer's business and its needs; and uses evaluation criteria that extend beyond analysis of short-term financial statements i.e. appreciates the value of intangible assets.<br>✓ Uses appropriate analytical and diagnostic techniques to gain a complete (holistic) overview of current businesses performance;<br>✓ Understands the dynamics of business growth and the criteria (including key performance indicators) that attach to a healthy small business.<br>✓ Adequately judges both the person and the business proposition. |
| 4. Communication Skills. | ✓ Demonstrates a positive, encouraging and supportive disposition.<br>✓ Uses appropriate language and body language; and applies questioning and listening skills to obtain relevant information.<br>✓ Shares information with and receive information from colleagues and customers using effective oral and written communication skills.<br>✓ Provides feedback with clear explanations and avoids financial jargon.<br>✓ Explains the information needs of the Bank in a structured, clear and precise manner. |
| 5. Networking Skills. | ✓ Credible within the small business community.<br>✓ Builds personal networks with small business operators and their stakeholders as a means to expand the bank's SME customer base.<br>✓ Signposts small businesses to relevant sources of help and advice in the wider business environment. |
| 6. Problem-solving skills. | ✓ Understands the process of development within a small business; and the factors that drive or block necessary change.<br>✓ Applies appropriate problem identification and solving techniques.<br>✓ Differentiates between symptoms and root-causes of business problems.<br>✓ Seeks and applies workable solutions. |

| Core Competency | Required Skills, Abilities & Attributes |
|---|---|
| 7. Technical Skills. | ✓ Demonstrates strong financial acumen and the ability to interpret business performance through analysis of available financial information.<br>✓ Provides advice and guidance on building net worth within a small business.<br>✓ Understands the bank's risk appetite, credit processes and approval criteria.<br>✓ Presents loan application in an optimum manner that reflects the systems and process in place within the Bank. |
| 8. Portfolio Management. | ✓ Understands the type of relationship that small businesses desire from the bank and banker and performs accordingly.<br>✓ Actively manages a small business portfolio by segmenting the SME market and his / her relationships; and priorities the optimum contribution of both time and resource.<br>✓ Identifies early or latent potential within a customer relationship.<br>✓ Positions the bank as a strategic business growth partner to its small business customers. |
| 9. Product Knowledge & Selling Skills. | ✓ Understands the bank's product offer.<br>✓ Promotes the bank's SME Product & Service offer and competitive advantage simply and effectively.<br>✓ Links product sales opportunities to identifiable business need rather than short-term targets or personal advantage.<br>✓ Maximises cross-selling opportunities and captures all fee income available from small business customers.<br>✓ Closes deals with minimum hiatus. |
| 10. Service Focus & Quality Improvement. | ✓ Values and delivers high quality, innovative service to all customers.<br>✓ Strives for high quality performance and takes initiative to make improvements and deliver results. |
| 11. Teamwork & Relationship Building. | ✓ Treats people with courtesy and respect.<br>✓ Encourages cooperation, collaboration and partnership.<br>✓ Identifies win : win situations within client relationships.<br>✓ Adds-value to small business relationships beyond providing access to financial products.<br>✓ Builds relationships as a means to mitigate risk and exposure for the bank. |
| 12. Stewardship. | ✓ Demonstrates accountability, discretion and sound judgement.<br>✓ Fosters partnerships and builds long-term relationships based upon a shared vision and common understanding.<br>✓ Motivates by example and stimulates positive changes in behaviour.<br>✓ Monitors individual small business and overall portfolio performance with due care and diligence.<br>✓ Acts as small business customer's advocate and champion within the bank system. |

The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation.

Government of Kenya

UKaid from the British people

Embassy of Sweden Nairobi

Bill & Melinda Gates foundation

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