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Banks Business Models, Risk Management Systems And Small And Medium Enterprises Financing Proclivity In Zimbabwe

Watson Munyanyi
Great Zimbabwe University wmunyanyi@hotmail.com

Tafirei Mashamba
Great Zimbabwe University tmashamba@gzu.ac.zw

Abstract

The need to create sustainable ways of generating profits has put substantial pressure on banks to reinvent their business models in the post-global financial crisis era. The objectives of bank managers, which include profit maximization, essentially influence the bank's lending behavior, scale, choice, and timing. Among the constraints that small and medium businesses face is limited access to financing. An increase in bank involvement in the financing of small and medium enterprises is critical for the survival of the sector. Given the widespread heterogeneity in banks business models globally, this study, grounded on the Portfolio Management Theory, investigates how diversity in business models affects bank risk management systems and their proclivity to small and medium enterprises lending. Structural equation modeling, a confirmatory, multivariate technique, was employed to analyze the causal relationships between these variables, starting with a pictorial representation of the variables. The strong relationship between the variables under study suggests that business models and risk management systems are key components in the decision to lend to small and medium enterprises. As such there is need for banks to reconsider their business operations mechanisms in order to accommodate the small and medium enterprises sector.

Keywords: Business Model, Risk Management, SME Financing, Financial Performance, Value Creation