

UNIVERSITY OF KWAZULU-NATAL

**THE IMPACT OF MZANSI ON THE
PERFORMANCE OF ABSA**

By

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DECLARATION

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“But those who hope in the Lord will renew their strength. They will soar on wings like eagles; they will run and not grow weary, they will walk and not be faint”

(Isaiah 40:31, NIV).

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ABSTRACT

The purpose of this study was to determine the impact of Mzansi account initiative on the performance of the Amalgamated Banks of South Africa (ABSA). Mzansi account is a national entry level bank account that was launched in October 2004. The Mzansi bank account was established to cater for the previously disadvantaged people, living in remote and rural areas of South Africa.

The Mzansi account is a product of the voluntary commitment by the Financial Services Sector as a response to the Government effort to address inequalities of the past. Historically, banks among other service providers did not actively offer banking services to poor people, especially those who lived in the rural and remote areas.

This study examined how ABSA, in particular, reacted to Mzansi account conceptualization. The study also looked at the financial and non-financial impact of the implementation of the Financial Services Charter Initiative since 2004 until 2008. While the study focused on the charter since its conceptualisation, it also tracked the performance of ABSA a year before the charter which is the year 2003. Lastly, the study intended to evaluate the performance of ABSA, its macro and micro environment and the present day business environment within the FSC initiative scenario.

The data collection for the study was acquired through literature review, observational study and case study research methodology. Findings of this study show that Mzansi initiative was found to have been a worthwhile initiative that has reached millions of low income people, who now have access to banking facilities and a formal banking instrument. However, the Mzansi initiative has not added a markedly value to the performance of ABSA bank.

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ACRONYMS

ABSA	Amalgamated Banks of South Africa
ACSI	American Customer Satisfaction Index
AMBA	ABSA Mzansi Bank Account
AMPS	All Media Product Survey
ATM	Automated Teller Machine
BBBEE	Broad-based Black Economic Empowerment
BEE	Black Economic Empowerment
FSC	Financial Sector Charter
FSCC	Financial Sector Charter Council
FSCI	Financial Services Charter Initiative
GAAP	Generally Accepted Accounting Principles
HEPS	Headline Earnings Per Share
LSM	Living Standards Measure
NEA	Nearest Equivalent Accounts
PUULIE	Previously Unbanked and Underbanked Lower Income Earners
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SWOT	Strengths, Weaknesses, Opportunities & Threats

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

Banks are continuing to re-examine their business priorities to find ways to effectively serve customers and to maximise shareholders value. Traditionally, the concept of value creation has been considered to be the primary concern of finance and accounting to improve the bottom line and sustainability of their organisations (Noel, Hollenbeck, Gerhart & Wrights, 2006).

1.2 BUSINESS CHALLENGES

Financial institutions worldwide and banks in South Africa operate under the sphere of a dynamic and ever-changing environment. Banks encounter complex challenges and more pressure daily (Wagner, 2007; Fourie, Falken & Kok 1996). This phenomenon gives rise to an adverse impact on the overall performance of banks in South Africa. Environmental changes have the potential to inflict major damage, and may also lead to potential market opportunities (Bennett-Steward, 1999).

1.3 BACKGROUND

The Amalgamated Banks of South Africa (ABSA) is one of the four big banks (BIG 4) carrying out business in South Africa. The ABSA Group provides products and services to selected markets in the United Kingdom and the Channel Islands, Germany, the United States, China (Hong Kong and Shanghai), Singapore and Mozambique, Namibia, Tanzania and Zimbabwe in Africa (ABSA, 2008a).

1.3.1 Evolution of ABSA

ABSA was founded in 1991 through the merger of the United, Allied and Volkskas Groups. In 1992, ABSA acquired another group, the Bankorp Group, which included TrustBank, Senbank and Bankfin (ABSA, 2005). The two banks each traded under their own names until 1998, when the United, Volkskas, Allied and TrustBank brands were merged into a single brand in the same year. The name

was changed to ABSA Group Limited in 1997. In 2005, Barclays Bank of the United Kingdom purchased a 56.4% stake in ABSA, which represents the largest foreign direct investment in the country (ABSA, 2005).

1.3.2 ABSA Services

ABSA Bank Limited offers a range of banking and financial products and services to personal, commercial, and corporate customers in South Africa and these include savings, current, and basic banking accounts; credit and debit cards; investment products comprising equities, unit trusts, and offshore investing products (ABSA, 2003). The ABSA Group's principal activity is to provide retail, corporate and investment banking services. The Group carries out its five business operations through: Retail, Corporate, and Business Banking, ABSA Capital, African Operations and Bancassurance (ABSA, 2005).

Changes in the financial sector required banks to give access to banking services. ABSA had to introduce into its stable, a special account that had to be a simple, affordable and user-friendly, that is, a savings account meant to cater for the previously unbanked people. This notion has been confirmed by Deputy Finance Minister Nhlanhla Nene in his speech. Nene confirmed that "Close to half of the South African adult population did not have access to a basic banking account", and he also added that "South Africans did not have a savings culture before the Financial Services Charter initiative" (Bua News, 2009). The FSC account was branded "Mzansi" and it was launched in October 2004 (FinMark Trust, 2004).

1.4 MZANSI ACCOUNT

According to the FinMark Trust (2004), the Mzansi account is an entry-level bank account, based on a magnetic strip debit card platform. The Mzansi account was launched by South Africa's four big banks and the PostBank in October 2004 (FSCC, 2005). It was meant to cater for the low income and previously disadvantaged people who live in the rural and remote areas of South Africa (FinScope, 2004).

1.4.1 Why the Mzansi Account?

The Mzansi account was a response to the Financial Services Charter Initiative (FSCI) which is a voluntary initiative and an agreement between ABSA, Nedbank, First National Bank, Standard Bank and the Postbank to give access to banking services to the Previously Unbanked and Underbanked Low Income Earners herein after referred to as PUULIE living in remote and rural areas (FinMark Trust, 2004).

1.5 THE FINANCIAL SECTOR CHARTER

The Financial Sector Charter (FSC) is a transformation charter in terms of the Broad-based Black Economic Empowerment (BBBEE) Act 53 of 2003 (FinMark Trust, 2004) which was developed within the context of the Black Economic Empowerment (BEE) framework. The overall aim of the FSC was to address inequalities resulting from historical, political, social and economic practices that excluded blacks from the mainstream financial services sector, to contribute to sustained economic growth, development and social transformation in South Africa, to unlock the finance sector's potential, promote its global competitiveness and give it world-class status (Moyo & Shannon, 2006).

1.5.1 The Living Standards Measure (LSM)

FinScope (2008) defined the Living Standards Measure (LSM) as a categorisation ranging from 1 to 10 used by marketers and advertisers as a means to segment the population. The LSM categorizations are a basic proxy for wealth, with the lower LSM groups comprising the most impoverished end of the spectrum (South African Advertising Research Foundation, 2004).

1.5.2 The LSM 1-5 Level

People who fall into the LSM 1-5 category are specified by the South African Research Foundation (2004) to be considered to live under a condition where people's basic needs for food, clothing, and shelter are not being fully met; they might be classified as people who live below the poverty line (Porteous, 2003).

According to the treasury publication report, poverty can mean a number of different things, in a popular exchange of ideas; poverty can be regarded as a 'portmanteau', the concept that captures a range of meanings. However, as seen in the Measurement of Poverty in South Africa Report, one important thread running through in poverty discourse is the notion of material lack, especially lack of resources necessary for survival (SARPN, 2007).

1.6 THE BANKING ENVIRONMENT

The Financial Services Charter (FSC) came into being during the time when financial institutions worldwide and banks in South Africa were operating under a dynamic and ever-changing environment (Wagner, 2007). While banks operate under this unpredictable environment, Fourie *et al.*, (1996), affirm that in any capital investment that companies undertake, organisations use different methods to evaluate projects that they venture into. Firer, Ross, Westerfield and Jordan (2004), assert that common knowledge teaches all kinds of organisations (small or multinational) that to venture into any project, at least break-even or profitability solutions have to be approved.

However Wagner (2007) cautions that the revolution within the business environment is characterised by constant transformation. Based on Wagner's (2007) notion, companies' overall strategies need to be flexible and aligned to the latest developments in order to remain versatile while competitive and in tune with customers and stakeholders expectations.

Fourie *et al.* (1996) envisaged that while banks are eager to extend their products and services to the less-privileged, they might firstly have to deal with the challenges of dealing with community's lack of interest and commitment in the type of services offered by banks. Secondly, there is a possibility of deposits of the PUULIE (Previously Unbanked and Underbanked Low Income Earners) being smaller than of the banks' present client base.

1.7 THE FINANCIAL CHARTER PROGRESS

The ABSA bank saw a substantial growth of automated teller machine (ATM) network of 3311 machines in March 2003 to 4502 machines within a year of the Financial Sector Charter conceptualisation (FinMark Trust, 2004). The bank took a leading role in the conceptualisation and the roll-out of Mzansi account initiative. According to FinScope (2008), 61% of active Mzansi users in 2008 were in the targeted LSM 1-5 range. The first 2008 review about the progress of the FSC also reported that by December 2008, more than six million Mzansi accounts had been opened, 72% of which were opened by people who had not had a bank account before.

1.8 MOTIVATION FOR THE STUDY

The motivation for the study revolves around the idea where South Africa's big four banks give access of banking products to the previously unbanked people living in rural and remote areas. This is a worthwhile and credible undertaking to find home within the existing body of knowledge, and therefore notable in a sense that the public, prospective scholars, bankers and potential entrepreneurs will acknowledge benefits of this study.

According to Blumberg, Cooper and Schindler (2005), progress in science is made by continuous innovation and accumulation of contemporary knowledge. Blumberg *et al.*, (2005) affirm that researchers need to embed in their studies the context of the problem, by reference to previous work of other scientists who came into the field before. Hence this study was undertaken to basically complement previous studies in finding out who is benefiting from the Mzansi bank account, albeit the business and socio-economic development brought by Mzansi initiative.

The researcher's motivation sustained, notwithstanding Firer *et al.*, (2004) and Gitman (2003), orientation that profit making organisations identify lucrative and sustainable ventures at all times, with the objective of maximizing shareholders' wealth. Schoombee (2003), affirms that venture into the mass market by banks may not be a lucrative aspect worth pursuing but also indicated that banks now pursue groups that they had previously ignored.

1.9 FOCUS OF THE STUDY

The study was centred on determining the performance of ABSA circa 2003 until 2008, with a particular focus on the remote and rural areas around Durban and the surrounding areas, namely Molweni, Nqetho, and Nongoma.

1.10 PROBLEM STATEMENT

The problem or question is the axis around which the whole research effort revolves (Leedy & Ormrod, 2005). The researcher acknowledges the Financial Services Charter Initiative and the concerted effort taken by banks to serve the PUULIE. Will the infrastructure of the time sufficiently and efficiently cater for the unbanked people living in rural and remote areas without any repercussion on the banks operations, reputation and performance?

Briefly the focal point of the problem is thus:

Is it evident whether the change in relation to giving access to banking services to the PUULIE through the Mzansi account, has brought about the desired results to the bank and whether this market is profitable enough not to dilute the bank's performance, reputation and in the process upset ABSA infrastructure and brand?

1.11 RESEARCH OBJECTIVES

- To determine the impact of increase of customer base in relation to financial performance of ABSA, prior to, and after the institution of the Financial Services Charter.
- To evaluate the impact of Mzansi account on the performance of ABSA with direct emphasis on service delivery consistency/channels.
- To ascertain the actual growth of Mzansi accounts.
- To assess utilization of resources in relation to maintaining high volumes of Mzansi accounts.

1.12 RESEARCH QUESTIONS

The study put together questions that were addressed to comprehend the impact of Mzansi on the performance of ABSA. The research questions were as follows;

- What has been the financial impact of Mzansi on ABSA's performance?
- What necessitated the servicing of the PUULIE?
- What is the future like for Mzansi account holders?
- What is the cost to benefits relationship incurred by Absa on its resources as a consequence of the intake of millions of new clients?

1.13 LIMITATIONS OF THE STUDY

Academic researchers have an obligation to reveal any setback encountered during the course of the study. This study endured financial, time, and language barriers, coupled with the bankers' authoritarian control. Nonetheless limitations did not stop the researcher from using other reliable and ethically correct methods deemed worthwhile. For instance, in the absence of primary data from bank representatives, the researcher made use of unobstructive observations which enhanced the validity of the study relative to the banking behaviour of low income earners in rural areas of Molweni, Nqetho and Nongoma.

1.14 SOURCES OF INFORMATION

The researcher carried out an extensive review of published and unpublished scholarly materials and reviewed a number of research papers and dissertations on the Financial Services Charter and Mzansi account in the evolution and the ultimate saving behaviour of the previously disadvantaged and unbanked South Africans. The researcher tapped into Financial and non-Financial performance measurements and theories, discussing the content of the study with reference to ratio and trend analysis. Information was gathered from the following secondary and primary sources:

- Business journals and e-journals
- Previous research reports and completed dissertations
- Academic textbooks
- ABSA website and financial reports
- Various Internet websites
- Observations

1.15 DATA COLLECTION

Of all the data collection techniques available to the social researcher, field studies may have the most intuitive appeal to field researchers; it entails spending time observing the normal flow of social life in some specific social setting assets (Leedy & Ormrod, 2005). According to Blumberg *et al.*, (2005) data gathering may range from a simple observation at one location to a grandiose survey of multinational corporations at sites in different parts of the world. Mouton (2005), affirms that data may be gathered by a variety of data collection methods. Blumberg *et al.*, (2005), furthermore assert that the method selected for collection of data determines how the data are selected.

There are varied views: “The collection of data may differ widely from one field of study to the next. In the empirical and case study terrain, field work may be necessary, while in other research work has to be done exclusively from books and other existing sources” (Botha & Engelbrecht, 1992).

The researcher employed multiple methods of data collection to include information interactions secondary sources, literature review, and observational study. Observational study techniques allow data to be gathered in difficult situations where other survey techniques cannot be used (Trochim, 2008). Hence the researcher mingled with residents of the above mentioned area for a period of four weeks during the morning hours till 14:00 hours Meridian time.

A period of four hours per visit was deemed enough to get in and out the Valley of a Thousand Hills, using public transport. During this period the researcher observed the banking and spending patterns of people living in rural areas, their transport costs and the rationale for travelling to Pinetown rather than to Hillcrest shopping malls, which are nearer to Nqetho and Molweni.

Botha and Engelbrecht (1992), affirm that these categories are not exclusive of one another, but may be combined. This study is directed by the type of research which involves no original collection of data directly from samples of people. Secondary data were collected from documents and reports from reputable and

well-known government-funded organisations. ABSA annual reports for 2003 to 2008 were extensively reviewed and scrutinised at length. The researcher conducted a literature review and gathered secondary data to gain background information from published scholarly materials.

While the researcher encountered restrictions in other means of data collection, the following sources provided a large amount of the data which proved to be valuable to this study: FinScope (2004; 2008), FinMark Trust (2004), the Financial Diaries project funded by FinMark Trust (2008), the Ford Foundation and the Micro Finance Regulatory Council reports (FinMark Trust, 2008) and organisational websites, historical records from the Financial Sector Charter Council (FSCC, 2005) which has been constituted and is responsible for overseeing implementation of the Charter between 2004 and 2014 (FinMark Trust, 2008).

The credibility of data retrieved from FinMark Trust and FinScope annual reports was endorsed by the following documentation by Nkosana Mashiya, who is the Chief Director of Banking Development and Financial Access, in the National Treasury (Suckwinder, 2007). Furthermore Mashiya said that “the definition of financial inclusion comes from FinMark. They are the only credible source. Every politician borrows from FinScope. In the National Treasury, we use it for policy, and to derive access indicators; in the business community, new products are based on FinScope data. When the National Credit Regulator set new interest-rate caps, decisions were based on indicators taken from FinScope. There is no other credible source of indicators” (Suckwinder, 2007).

1.16 DATA ANALYSIS

“Analysis involves breaking-up of data into manageable themes, patterns, trends and relationships” (Mouton, 2005). Mouton (2005), further asserts that the aim of analysis of data is to understand the various constitutive elements of one’s data through scrutiny of relationships between concepts, constructs and variables. According to Blumberg *et al.*, (2005), within the secondary data exploration, a researcher’s first step is the search of secondary literature of the organisation’s own archives, and reports of prior research studies that often reveal an extensive

amount of historical data or decision-making patterns. Analysis of internal and external, the macro and business environment and evaluation of the financial data of ABSA, was undertaken in order to determine the impact of the Mzansi initiative on the profitability and performance of ABSA, and to answer the research questions.

1.17 STRUCTURE OF THE STUDY

This study consists of seven chapters.

- **Chapter One** serves as an introductory chapter, and is the roadmap that offers a chronological flow of the study. It is the researcher's radar screen.
- **Chapter Two** focuses on scholarly documents, pertaining to financial and non-financial measures used by organisations. Chapter two served as a source of data collection and looked at the Mzansi initiative; the Mzansi account, Mzansi account holders and the environment in which ABSA operates.
- **Chapter Three** presents the ABSA case study
- **Chapter Four** describes possible research methodologies which orchestrated the direction the study followed. This study subscribed to the case study research methodology which was characterized by the triangulation research data collection and analysis techniques.
- **Chapter Five** presents ABSA's financial and non-financial performance results in graphical and written forms supported by the literature review, the case study and the observational study results.
- **Chapter Six** is a discussion of the findings based on chapter five.
- **Chapter Seven** provides a conclusion and recommendations based on the information drawn from the previous chapters.

1.18 CHAPTER SUMMARY

The first chapter to the study served as an introductory chapter, presented a brief history ABSA, the Mzansi account and the profile of Mzansi account holders was presented; the following two chapters dwelled on a scholarly review and ABSA case.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

The literature review sets the scene and develops the research problem with a view to arriving at a conclusion (Mosalakae, 2007). According to Bless and Higson-Smith (1995), the aim of the literature review is:

- To clarify, sharpen and deepen the researcher's understanding of the problem at hand;
- To identify gaps in the knowledge as well as weaknesses in previous studies;
- To familiarise the researcher with the latest developments in the area of research and other related areas;
- To identify variables that must be considered in the research and to detect relevant information;
- To study the definitions, whether conceptual or operational in nature that was used in previous studies;
- To study the advantages and disadvantages of various research methods used by other researchers in order to adapt to, or to improve one's own study.

This chapter basically aims to provide a theoretical framework on which the study's findings, discussions and conclusions will be based. It will also outline the overall internal and external challenges facing the financial services, and in particular ABSA bank. Lastly, the performance of ABSA in the midst of the turbulent legal and political environment in South Africa that impacts on the banking industry will be discussed.

The researcher perused in detail a number of reports and topical literature related to the Mzansi account with particular attention to the previously unbanked and underbanked low-income earners in South Africa living in rural and remote areas, with the main objective of determining the impact of the Financial Sector Charter on the performance of ABSA bank. In the effort of the ruling party to redress the

inequalities of the past regime through numerous rules and initiatives, banks are willing, prepared and set to provide low-income earners in South Africa with ATM accessibility, and full banking services in towns and also in rural and remote areas, at an affordable price (FinMark Trust, 2004).

The South African banking industry faces the most challenging time in the history of banking because of the changing economic face of South Africa, that has brought changes, such as a need to cater for the PUULIE (Goosen, Pampallis, Van Der Merve & Mdluli, 2001). In the midst of the prevailing situation, the BIG4 (ABSA, FNB, Standard Bank and Nedbank), took a concerted effort through the Financial Services Charter to develop strategies in preparation for extensive mechanics needed to cater for the millions of the previously unbanked and the underbanked emerging market which was estimated at 14 million (Feasibility Pty Ltd, 2004).

As a response by banks to offer the PUULIE and the emerging markets with access to banking services in an affordable and user-friendly manner, through the Financial Sector Charter Initiative agreement, the BIG4 and the state-owned Postbank opened almost two million Mzansi accounts for the PUULIE by October 2004 (Reserve Bank, 2005). The main objective of the Financial Sector Charter is meeting customer's needs which are paramount to business success in this sector. In the scramble for the PUULIE virgin market the service strategy is best derived from monitoring and adapting to the forces within the micro, macro and business environment.

2.2 THE MACRO ENVIRONMENT

The external factors affect the purchase behaviour of consumers in the financial sector. Changes in the macro-environment can make markets contract or expand and determine the level of competitiveness within the financial sector (Jones & George, 2003). According to Jones and George (2003), the organisational environment is basically a set of factors outside the organisation that have a direct influence on the way a company operates. These factors are not static; they (forces/factors) change at all times.

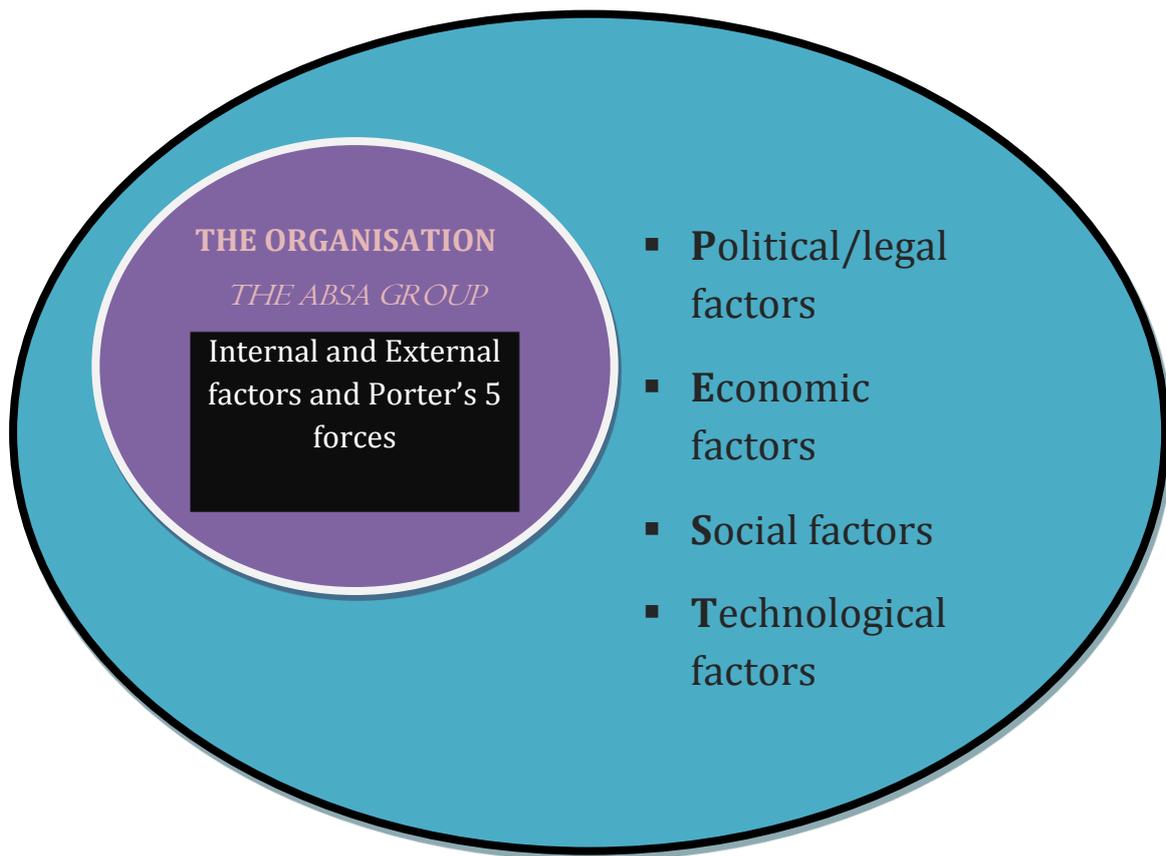


Figure 2-1: Business environment
Adapted from Porter (2001)

PEST is the acronym for Political, Economic, Socio-cultural and Technological influences. Porter (2001) affirms that PEST is a popular technique for analysing the environment. The macro-environment comprises external factors that organisations cannot influence, but which directly or indirectly influence a firm's performance. The macro environment poses factors that could be political/legal, economic, social or technological. According to Van De Walt, Strydom, Marx and Jooste (1996), government affects the business environment through regulations and enforcement of legislation.

According to Bennett-Steward (1999), changes in sub-environments exert pressure on organisations to respond with appropriate strategies; hence decisions made by companies have to be flexible in order to accommodate constant environmental changes. Bennett-Steward (1999) calls for corporate managers to

put more emphasis on the principal mission of organizations in increasing shareholders wealth. It is still necessary to consider how organisations are able to adapt to changes in the environment in which they operate, and the demands placed upon the same organisations Mullins (2002).

Table 2-1: A detailed PEST Analysis

<p>POLITICAL</p> <ul style="list-style-type: none"> ▪ ecological/environmental issues ▪ current legislation home market ▪ future legislation ▪ international legislation ▪ regulatory bodies and processes ▪ government policies ▪ government term and change ▪ trading policies ▪ funding, grants and initiatives ▪ home market lobbying/pressure groups ▪ international pressure groups ▪ wars and conflicts 	<p>ECONOMIC</p> <ul style="list-style-type: none"> ▪ home economy situation ▪ home economy trends ▪ overseas economies and trends ▪ general taxation issues ▪ taxation specific to product/services ▪ seasonality/weather issues ▪ market and trade cycles ▪ specific industry factors ▪ market routes and distribution trends ▪ customer/end-user drivers ▪ interest and exchange rates ▪ international trade/monetary issues
<p>SOCIAL</p> <ul style="list-style-type: none"> ▪ lifestyle trends ▪ demographics ▪ consumer attitudes and opinions ▪ media views ▪ law changes affecting social factors ▪ brand, company, technology image ▪ consumer buying patterns ▪ fashion and role models ▪ major events and influences ▪ buying access and trends ▪ ethnic/religious factors ▪ advertising and publicity ▪ ethical issues 	<p>TECHNOLOGICAL</p> <ul style="list-style-type: none"> ▪ competing technology development ▪ research funding ▪ associated/dependent technologies ▪ replacement technology/solutions ▪ maturity of technology ▪ manufacturing maturity and capacity ▪ information and communications ▪ consumer buying ▪ mechanisms/technology ▪ technology legislation ▪ innovation potential ▪ technology access, licensing, patents ▪ intellectual property issues ▪ global communications

Adapted from Chapman (2010)

2.2.1 ABSA and the Changing Business World

According to Arya, Bassi, and Phiyega (2008), the executive committee members of the bank's branches supported the ABSA Group transformation strategic intent of achieving and exceeding the minimum requirements of the financial sector charter. The ABSA group executives' team supports the transformation initiatives with strong messages of commitment from the CEO and top management who

continuously reinforce in all communications that the strategic intent was to be regarded as an empowerment strategy. This is an incorporation of transformation and a business imperative and not merely a compliance requirement which is supported by all business units in the Group in dealing with outside forces.

2.3 POLITICAL AND LEGAL ENVIRONMENT

Governments create uncertainty for organisations through changes in regulations, to the degree in which they enforce regulations through strict and harsh conditions that can create economic and political insecurity and instability to organisations at the same time (Martin, 1983). According to Mullins (2002), laws and regulations may come in the following manner: they may come as an operational risk and can weaken or strengthen an organization's capabilities in the business world.

Organisations have to respect and obey the laws of the country in which they operate, even when they feel that such laws are not in their best interests. Companies do have different views on environmental challenges. However, with regard to the Financial Charter Initiative, ABSA Group has been in the forefront of the transformation process and have since instituted several changes to internal processes and structures to effectively meet the new targets stipulated by institutional transitions (Arya *et al.*, 2008). Martin (1983), prescribed measures to help companies to respond to government policies, and he says companies have to brainstorm four options he prescribes. The options are:

1. Wait and see options,
2. Compliance by doing the minimum to get by.
3. Active options, following best practices, or
4. Proactive options such as taking the opportunity on the policy to maximise competitive advantage.

Martin (1983) argues that organisations are managed with the shareholder's interests at heart; hence in all cases they will venture into profitable projects that will not dilute the shareholder's wealth. In the attempt to pursue the company's business policies laid down by individual banks, banks choose their own customer groups, who they want to serve (Kotler, 2003). Within the South African context,

the government introduced initiatives aimed at enhancing the quality and accessibility of government services by improving efficiency and accountability to the recipients of public goods and services through various initiatives.

The most popular government initiative was known as the *Batho Pele* (“People First”), which has been regarded as a stepping stone initiative that offered guidance into achieving the best delivery of public services not only by government departments but by all sectors of the economy. According to Kroukamp (1999), principles of the *Batho Pele* deploy the following traits:

- Consultation;
- Service Standards;
- Access;
- Courtesy;
- Information;
- Openness and Transparency;
- Redress, and
- Value for Money.

Businesses such as banks also had to respond to the prevailing socio-political changes by following regulations of the Financial Services Charter (FSC). Hence in the endeavour to drive transformation within the sector, firms in the financial sector voluntarily developed the FSC, which established the principles upon which black economic empowerment would be implemented to reflect the demographics of South Africa and contribute to the creation of an equitable society.

Allardyce (2008) stipulates that the rationale for Broad-Based Black Economic Empowerment (BBBEE) is to establish an economy in which every South African is empowered. It will provide great socio-economic benefits in the long term, due to the fact that the more people excluded from the economy, the smaller the market becomes, and a larger market has benefits for a greater portion of people. Transformation is necessary to effect this growth and the BEE is the chosen transformation mechanism.

2.4 ABSA AND THE MZANSI INITIATIVE

Fick (2007), proposed the following eight principles that can be adopted in serving the PUULIE:

- **Base the solution on commercial principles.**

Entering the PUULIE market should be based on the ability to serve the market profitably.

- **Ensure that the solution would be sustainable.**

Mzansi had to be a long-term solution, rather than a short-sighted solution introduced in response to pressure for improved financial access. For the solution to be sustainable, it had to generate an acceptable rate of return.

- **Give preference to industry-wide solutions.**

In order to provide a product suited to meet the needs experienced at the PUULIE, industry participants had to collaborate and compete in the appropriate areas. To bring the Mzansi to the PUULIE as efficiently as possible, both the banks and the Post Office decided to share their infrastructure, competing with one another only in terms of product offering and price.

- **Engage in public-private partnerships where appropriate.**

Partnering with the Post Office in order to use its infrastructure ensured that the Mzansi product could be taken to those areas where no bank infrastructure was available.

- **Move away from fully-absorbed pricing principles.**

Marginal costing ensured that new products did not attract sunken fixed costs, keeping in mind that proposed products often are not introduced due to an absorption-costing methodology.

- **Engage meaningfully and continually with all stakeholders.**

The success of Mzansi centres on ongoing consultation with shareholders, businesspeople, community representatives, labour unions and the government.

- **Make sure that the products are significantly more affordable than any other product currently in the market.**

Banks realised that, for Mzansi account to be successful and attractive to the lower income market, it had to be significantly more affordable than other ordinary and simple savings bank accounts.

- **Reduce frictional costs to clients.**

The PUULIE in remote and rural areas incur both direct and indirect product costs because they (the PUULIE) often have to travel long distances in order to reach a point where they can make a transaction (Fick, 2007).

2.4.1 Access to Banking

Sections 2.22 of the Banking charter give a definition of access as per table shown below. Briefly, banks undertake to ascertain banking services to be found within a distance of 20 kilometres from another point of service which will be in a form of self-service interface or in a form of Automatic Teller Machine (ATM), Mobile Agency or a brick and mortar bank or a set-up within community based structures. (FinMark Trust, 2004).

ACCESS TO BANKING

2.22.1 Effective access means being within a distance of 20 km to the nearest service point at which first-order retail financial services can be undertaken, and includes ATM and other origination points, except in the case of the products and services of the long term assurance industry, where effective access, including physical access will be in terms of the availability of these products and services, and in terms of proximity or accessibility of financial advisers to community-based infrastructure;

2.22.2 Being within a distance of 20 km to the nearest accessible device at which an electronic (other than ATM) service can be undertaken;

2.22.3 A sufficiently wide range of first-order retail financial products and services to meet first order market needs and which are aimed at and are appropriate for individuals who fall into the All Media Product Survey (AMPS) categories of LSM 1-5;

2.22.4 Non-discriminatory practices;

2.22.5 Appropriate and affordably priced products and services for effective take up by LSM 1-5;

2.22.6 Structuring and describing financial products and services in a simple and easy to understand manner.

Figure 2-2: Access to banking
Adapted from FinMark Trust (2004)

According to the Financial Services Charter Council (FSCC, 2004), the primary objectives of the access to financial services pillar are to:

- Increase the convenient access to physical banking infrastructure, including branch networks and automatic teller machines access to underprivileged black South Africans and at the same time ensuring their ability to utilise banking services through affordable products designed specifically to meet the PUULIE needs.
- Financial services to be offered to the PUULIE in a simple and easy to understand manner.

2.4.2 Affordability of the Mzansi Account

To serve and give access to banking to the previously unbanked and underbanked people who live in rural and remote areas of South Africa have a cost element attached to it. Serving the poor has a complex risk of high cost and low returns (Schoombee, 2003). Schoombee (2003), in addition highlights that high costs relate to salaries for highly skilled personnel, together with wages for support staff and casual labour and transport costs incurred in visiting far away outlets at certain times. While Schoombee (2003) has shown that it is expensive to cater for the PUULIE, the Financial Charter Initiative main objective is to offer the Mzansi account to the PUULIE at an affordable and easy to understand manner.

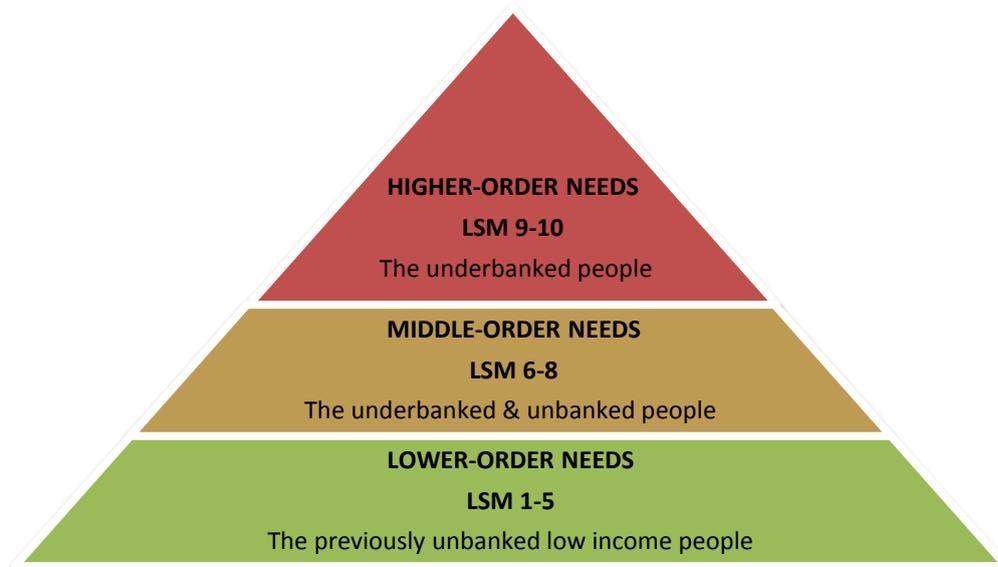


Figure 2-3: Maslow's Hierarchy of Needs as it applies to LSM 1-10
Adapted from Robbins (2004).

The majority of the previously unbanked and underbanked low income earners (PUULIE) are people who occupy the bottom of the Maslow hierarchy of needs and are not in need of higher level needs but basic level products and services. This group of people might not prove to be a profitable market to ABSA.

2.5 ECONOMIC FACTORS

Economic forces affect the general health of a country. The sub-sections encompassed in economic forces include economic growth, interest rates, inflation and unemployment (Jones & George, 2003). The list is endless. Table 2.1 shows additional economic sub-factors. Jones and George (2003), further elaborate that economic forces create opportunities and threats for companies. Lower levels of unemployment and falling interest rates mean a change in the customer base. When economic conditions are bad, such conditions make the environment more complex and difficult to manage (Jones & George, 2003).

While the continent is entangled in fighting poverty, other countries are found to be under strain to reach and to offer banking services to the poor people living in remote areas. Katz (2005) anticipates African microfinance failing to attain the goal of poverty alleviation. In his study, Katz (2005), held responsible the poor infrastructure, hard-to-serve rural markets with low population density, and high labour costs as barriers to Micro Finance profitability. Katz (2005) further says: "Hard-to-serve, unprofitable groups will continue to be the focus of informal, cooperatives and non-governmental organizations burden, while banks will incorporate technology and management practices focused on a slightly better-off, but still poor by all accounts clientele".

ABSA is mainly interested in the consumer's purchasing power that could be determined by the availability of disposable income for consumers. Economic factors influence certain types of goods and services. Table 2-1 shows several items listed under the economic factors heading.

2.6 SOCIAL FACTORS

Social factors include factors such as population size and structure of the target market, their values and expectations. That is, the desire for certain types of banking facilities and services rely upon certain lifestyles and attitudes. As social attitudes change, so does the demand for certain kinds of products and services. According to Jones and George (2003), the Hofstede's Model of National Culture indicates that societies, in which inequalities exist and grow with time, have high power distance. The high power distance is defined as the degree to which societies accept the idea that inequalities in the power and well-being of their citizens are due to differences in individuals' physical and intellectual capabilities and heritage (Jones & George, 2003).

The Deputy Minister of Finance, Nhlanhla Nene in a public speech, stated that, "South Africa as a country does not have a savings culture...Initiatives such as the Mzansi account therefore serve as a crucial building platform from which a culture of saving can be launched" (Bua News, 2005). While South Africans have been labelled a non-saving nation, studies show that people have been found to hold informal savings accumulated in *stokvels* and other informal structures. The informal financial services institutions for survival have been formed in urban South Africa as early as 1930 (Verhoef, 2005).

2.7 TECHNOLOGICAL FACTORS

The big challenge for service providers is technological advancement in almost every walk of life. Creative technological adaptations influence changes in existing products and improvements in marketing techniques. The benefits to companies lie in the forecasting of technological advancements predicting future capabilities for the companies. The power of Internet and e-commerce has enhanced the methods of interaction between suppliers and consumers and it is therefore essential for a company to scan the environment in order to capitalise on opportunities and be aware of threats presented by the environment (Chase, 2006).

2.7.1 ABSA and Technology

ABSA has been in the forefront in technological innovations. The bank implemented the anti-skimming technology on its self-service kiosks and fully branded ABSA ATMs. The Jitter software vibrates the card reader which sends a disrupted signal to illegal skimming devices. The Jitter software will enhance the speed at which the bank card are sucked into and ejected from ATMs which is a little slower than what is currently the case (ABSA Report, 2008a).

According to Haag, Cummings and Phillips (2007), organisations that are successful in realising the full returns from their technologies and innovations are able to match their technological developments with complementary expertise in other areas of business, such as enterprise-wide business process management, process reengineering, distribution channels, human resources, marketing, availability, convenience of use and value adding customer service.

Gitman (2003) posits that a revolution in the financial services is creating large national institutions that are displacing local finance institutions and he is of the opinion that the major contributing factor to this growth is the new technology in services such as ATMs, electronic banking and Internet access. Institutions that can afford to build and support the necessary technological infrastructure will be able to perpetuate their growth.

2.8 BUSINESS FORCES

Business environment changes in organisations can be unplanned and at times chaotic and chaotic changes can be difficult to manage (Hellriegel, 2005). Porter's (2001) five forces impacts can be aligned to Hellriegel's (2005), ideology to strengthen known and unforeseen business environments, especially in times when banks are not only under pressure from the shareholders but also from other stakeholders such as suppliers, customers, competitors, and government regulations and initiatives to correct the past inequalities of the former government especially in South Africa. While companies are under pressure from different factors, analysts and strategists in banks take precautions (Goosen, 2001).

In times of the changing business environment, companies carry out their operation activities with caution, without losing sight of the company's vision and mission, and the shareholders' interests at heart. Hence directors of companies as custodians need to be at the forefront of changes (Firer *et al.*, 2004).

2.8.1 Business: Internal and External Forces

The functions and structure of a company are influenced by an array of internal and external environmental factors. In order to understand the operations of organisations, and to improve organisational performance, it is necessary to consider how firms achieve an internal and external balance on how they are able adapt to changes in their environment and the demands placed upon them (Mullins, 2002).

2.8.2 Strengths and Weaknesses

The SWOT analysis is a two part approach that looks at two business environment strengths and weaknesses. SWOT is a popular short form for the analytic business tool used within the social sciences to scan the key success factors. It is used to a greater extent by businesses to look inside and outside the company for an analysis of the **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats (SWOT) which pertain to it (Robbins, 2004).

2.8.3 Opportunities and Threats

Opportunities are forces internal to the firm. They are favourable conditions a company has over competitors or other firms. Threats are bad news to the company in most cases. Companies have no power over threats (Robbins, 2004).

2.9 THE FIVE FORCES

According to Smith and Cronje (2002), the collective strength of the five forces determines the possible competitiveness and the profitability of the industry. Porter's competitive forces assume that there are five competitive forces that identify the competitive power in a business situation: Threat of substitute

products, Threat of new entrants, intense rivalry among existing players, bargaining power of suppliers, and bargaining power of buyers (Kotler, 2003).

2.9.1 Threat of Substitute Products and Banking Services

The informal saving mechanisms structures offer people flexible saving instruments that are easily accessible to the low, medium as well as people with high income savers. Van De Walt *et al.*, (1996) indicate that new trends emerge in order to bridge the gap for products and services offered to customers through easy to reach channels. These channels might be use of technology by financial institutions and convenient extended shopping hours in black residential areas.

2.9.2 Threat of New Service Providers

The environmental threat of new entrants or potential threat into the industry intensifies competition, erodes market share and makes prices decrease (Jones & George, 2003).

2.9.3 Bargaining Power of Customers

Customers are individuals that ask for a chosen organisation's services. According to Jones and George (2003), changes in the number and type of customers become an opportunity or a threat. Jones and George (2003), affirm that an organisation's success depends on its response to customers. In the services industry, clients demand lower prices quality service hence companies have to respond to customers' needs.

2.9.4 Bargaining Power of Suppliers

Organisations are regarded as systems that have to churn raw materials from the environment and convert them into outputs. These outputs can be products or services to be marketed to other industries. According to Van De Walt *et al.*, (1996), a company has to get a regular constant supply of raw materials at the right time in order to achieve its objective.

2.9.5 Rivalry among Existing Banks

Rivalry between competitors is the most threatening force that companies have to deal with. Competitors can be defined as a situation in the market environment where rival firms compete for similar or the same customers (Smith & Cronje, 2002).

2.10 PERFORMANCE

Organisational performance and effectiveness is dependent upon the successful management of the opportunities, challenges and risks presented by changes in the external environment. According to Booyens (ABSA, 2008a), the central idea behind performance measurement for an institution is to formulate the envisaged performance and to indicate how this performance will be measured by defining performance indicators.

The most popular and common ways in which organisations measure performance is through ratio analysis. Comprehensive use of ratios does help companies to see how the business is performing and to make improvements where necessary (Dixon & McAuley, 1994). Ratio analysis involves methods of calculating and interpreting financial ratios to analyse and monitor the firm's performance (Gitman, 2003).

According to Firer *et al.*, (2004), financial ratios are normally grouped into the following five classes: Short term, Long term, Asset management or turnover ratios, Profitability ratios, and Market value ratios. Fitzgerald *et al.*, (1995), state that successful performance in the various quantitative measures that are commonly considered as reasonable standards for business is important, but by no means can they be the only way in which success be measured.

Table 2-2: Possible Performance Measures

PERFORMANCE DIMENSIONS	TYPES OF MEASURES
COMPETITIVENESS	Relative market share and position Sales growth, Measures and customer base
FINANCIAL PERFORMANCE	Profitability, Liquidity, Capital Structure, and Market Rations,
QUALITY OF SERVICE	Reliability, Responsiveness, Appearance, Cleanliness, Comfort, Friendliness, Communication, Courtesy, Competence, Access, Availability and Security
FLEXIBILITY	Volume Flexibility, Specification and Speed of Delivery Flexibility
RESOURCE UTILISATION	Productivity, Efficiency
INNOVATION	Performance of the innovation process, Performance of individual innovations.

Adapted from Cotter and Fritzsche (1995)

The objective of performance measurement is to establish a baseline of activity by which future activities, including change in activity, can be evaluated and judged. The framework in Table 2-2 was founded by Cotter and Fritzsche (1995) and this framework has since been adapted by the researcher for this study. Cotter and Fritzsche's (1995) possible measures framework serves as a guide for possible financial and non-financial performance measurement. Goosen *et al.*, (2001) furthermore confirm that in order to make their product more technologically competitive and gain Return on Investments (ROI), banks and all the service providers are trying their best to meet technological challenges as well as Service Quality Assurance Benefits.

Mosalakae (2007) affirms that business leaders have begun to realise that both financial and non-financial indicators should be considered in measuring performance. Mosalakae (2007) draws insights from the Malcolm Baldrige National Quality Improvement Act of 1987. According to the Baldrige Criteria (Baldrige, 2007), performance refers to output results and their outcomes are obtained from processes, products, and services that permit evaluation and comparison relative to goals, standards, past results, and other organisations.

- Performance can be expressed in non-financial and financial terms.

- Measurement refers to numerical information that quantifies input, output, and performance dimensions of processes, products, services, and the overall organisation (outcomes).
- Performance measures might be simple (derived from one measurement) or composite.

2.10.1 Customer Satisfaction

Fornell (2006) advocates that investment in customer satisfaction lead to excess returns. Gruca and Rego (2003), affirm that satisfied customers are central to creating shareholder value. Increasing a firm's cash flow and reducing its cash flow variability, higher levels of customer satisfaction decrease a firm's cost-of-capital and improve bottom-line performance.

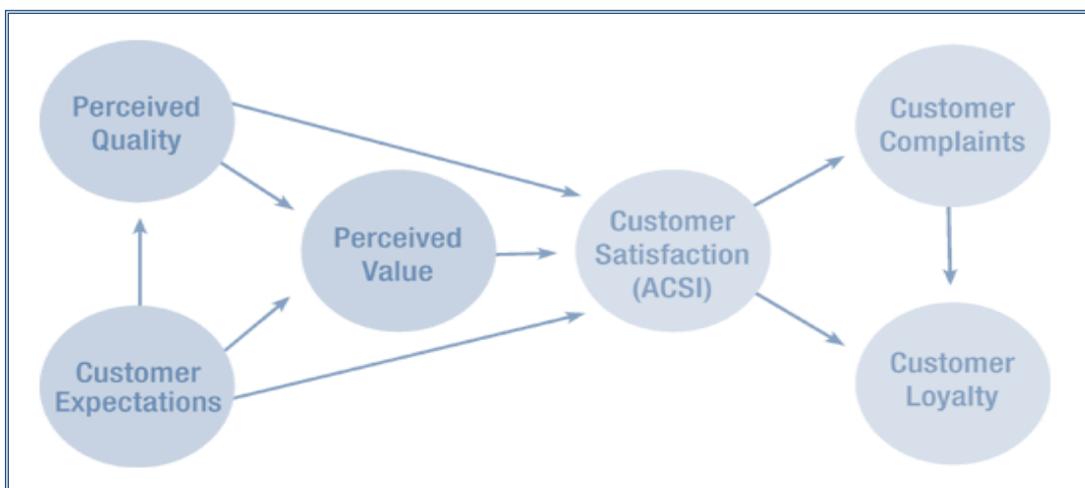


Figure 2-4: Customer satisfaction model
Adapted from ACSI (2009)

The American Customer Satisfaction Index (ACSI) is a fundamental model that companies conscientiously utilise to track customer satisfaction, overall satisfaction and financial behaviour. The diagram below provides an overview of the linkages between satisfaction drivers and overall satisfaction and customer behaviour (ASCI, 2009).

Eccles (1991) viewpoint is that companies need to know what measures truly predict long term success. Gruca and Rego (2003), also affirm that measured the right way, customer satisfaction is a leading indicator of a company's financial performance. When managed scientifically using a proven, standard metric, customer satisfaction drives loyalty, profitability and growth.

Measuring customer satisfaction can be carried out with the aid of the American Customer Satisfaction Index (ASCI), as one of the best-in-bred solutions for customer satisfaction measurement that is tied directly to financial performance.

There are many ways and methods that organisations use to measure the performance of a firm. According to Stainer and Heap (1996), measures of performance in organisations ought to be robust, simple, and reliable. Their view indicates that measures should arise naturally from operations, while they should also be limited to controllable factors while following a hierarchical sequence and cover an appropriate period.

Ittiner and Larckner (2001), have observed that evaluation of a company's performance is tedious and a great challenge, because execution often entails wading through a thicket of numbers produced by a few simple metrics, and senior executives leave measurement to those whose specialty is spreadsheets. Critics of traditional financial measures strongly hold that drivers of success in industries are intangible assets such as intellectual capital and customer loyalty, rather than the hard assets allowed on the balance sheet. Traditional financial measures have come under a critical debate.

According to Liekerman (2009) organisations have to take ownership of performance assessment, and to find quantitative forward looking measures. They need to be precise about what is to be assessed and to be explicit about what metrics are to be used to assess performance. In an attempt to monitor the performance of banks, financial economists have used financial ratios (Yeh,1996). Yeh (1996) affirms that while the major de-merit of the approach is its reliance on the benchmark ratios. He further says the benchmark ratios may not be suitable,

and they carry high failure rates. The failure rate in most cases is due to the garbage-in garbage-out conception.

Eccles (1991) elaborates at length that, "It is now being shown that accrual accounting systems are obsolete and often harmful. Financial figures assess results of past decisions, but do not cover crucial factors for future performance like equality and customer satisfaction - which have different criteria". Sherman and Gold (1985), Oral and Yolalan (1990), also indicate that financial ratios represent short term measures of operating performance rather than the more relevant and reliable long term performance. Under this perception they conclude that financial ratios should be regarded as inappropriate.

In their study Doguwa (1996), Nyong (1994) and Jimoh (1993), hold the same negative perception towards inappropriateness of ratios, as the right measures of a company performance. Their negative perception towards ratios is that ratios aggregate many aspects of bank performance such as operations, marketing and financing. While a great number of researchers, disregard the use of ratios.

Mosalakae (2007) affirms that financial ratio analysis enjoys a wide use by a number of companies. Bernthal, Sumlin, Davis and Rogers (1997), show that a 1996 study by Schiemann and Associates indicated that executives in companies used in the study, widely acknowledged the limitations of traditional financial measures, but still favoured the traditional financial measures over non-financial measures because they saw them as generally being less ambiguous.

The commonly watched ratio is called the net interest margin. The net interest margin ratio measures the difference between interest income and interest expenses as a percentage of total assets (Firer *et al.*, 2004). Eccles (1991) confirmed that the shift from treating financial measures as the foundation for performance measures, to being only one of several measures is acknowledged. The return on investment (ROI) measure remained a standard, however, as the competitive environment changed, ROI ceased to be the most relevant guide to future performance. Cotter and Fritzsche (1995) substantiate that basic measure of bank profitability that corrects for the size of the bank is the return on assets.

However ROE has some shortcomings. De Wet and Du Toit (2009) embrace the use of ROE while they appreciate the following disadvantages tabled below:

Table 2-3: Disadvantages of Return on Equity (ROE)

A.	Earnings can be manipulated legally within the Generally Accepted Accounting Principles,(GAAP), therefore ROE may not be a true accurate reflection of the organisations' performance
B.	ROE is calculated after the cost of debt, before taking into account the cost of own capital
C.	Asset turnover can be affected by inflation, and the end result might not portray the correct picture
D.	ROE does not consider the timing of cash flows, in the process ROE can overstate short term returns that may prove not to be sustainable in the long run
E.	ROE is regarded as a short term measure; dependency on this measure may distort potential opportunities that could increase shareholder value

Adapted from De Wet and Du Toit (2009)

Eccles (1991) confirmed that firms have since found that financial measures undercut strategy, in the process devised new measures where financial considerations were less significant. Scharage (2000), analysis on performance is based on the assumption that employees have a negative impact on the organisation's performance. He points out that "the rhythm and rhetoric of effective email exchange is a critical success factor in business performance, mismanagement of email may in fact be a symptom of other weaknesses in organisations" (Scharage, 2000).

Key financial ratios measured by analysis represent standard performance measures used by the accounting profession on a daily basis, and seek to analyse the income statement and balance sheet from a variety of financial performance perspectives, which include profitability, liquidity, efficiency, asset usage and gearing (Fitzgerald, Johnston, Brignall, Silvestro & Voss, 1995). The profit margin is the element that drives profitability.

ROE is one of the most important indicators of a firm's profitability and potential growth while the DuPont analysis adds clarity as it describes, through a tree of

calculations, the drivers for return on equity (Firer *et al.*, 2004). Asset turnover describes how effectively a company converts its assets into sales and this has an impact on the potential growth of the company, how fast the engine is running and how much assets sweat to maximise shareholders wealth (Firer *et al.*, 2004).

2.11 TREND ANALYSIS

Trends are an important early warning signal. It is not necessary to wait and see where it went wrong. Conversely, a trend can clearly show direction making it possible to start correcting before critical levels are reached.

2.12 CHAPTER SUMMARY

This chapter looked into financial and non-finance performance indicators. Traditional measures of performance come under attack by several researchers; however, companies still prefer to use ratios than any other measures. The researcher examined the business and its environment, the variables that must be considered in the research and relevant information to answer the research question, with a view to determining the impact of the Mzansi Initiative on the performance of ABSA.

CHAPTER 3: CASE STUDY

3.1 INTRODUCTION

In this chapter the researcher will present an elaborate history of ABSA. The researcher obtained the ABSA group history from the bank's historical data and archives extracted from reputable sources. The focus of this chapter is based on ABSA bank performance on internal and external factors since 2003, the year before the conceptualisation of the Mzansi initiative, up to 2008. The objectives of the FSC will be mapped against the performance of ABSA.

3.2 ABSA SHAREHOLDING

ABSA was founded in 1991 by the amalgamation of Volskas, United, Allied and Trust banks. The new entity was called the Amalgamated Banks of South Africa, which was abbreviated to ABSA (ABSA, 2005). ABSA became a subsidiary of Barclays Bank PLC, which holds a stake of 58.8% in the Group. Barclays is a major global financial service provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services, with an extensive international presence in Europe, the USA, Africa and Asia. ABSA shareholding at the end of 2008 is displayed pictorially below.



Figure 3-1: ABSA shareholding
Adapted from ABSA shareholding (ABSA, 2008b)

3.3 BUSINESS DESCRIPTION

A relatively lengthy business description of the group's business structure adapted from the ABSA public domain is presented below.

3.3.1 Retail Banking

Retail banking offers a comprehensive range of banking products and services to individuals and small business customers.

3.3.2 Corporate and Business Banking

Corporate and business banking provides a comprehensive range of banking products and services to corporate, medium and large business customers.

3.3.3 ABSA Capital

ABSA capital provides investment banking solutions to the corporate market segment.

3.3.4 African Operations

African operations provide retail and limited corporate services from a national network of branches, agencies and ATMs.

3.3.5 Bancassurance

Bancassurance comprises various insurance products, financial advisory services, drafting and safe custody wills, comprehensive administration, actuarial and consulting services for a variety of investment products.

3.4 VISION AND MISSION

According to Hoagland-Smith (2004), visions change as do vanishing points on the horizon. She argues that the big picture 5 years ago may have been dramatically altered due to new product or service innovations or from local to global perspectives in the marketplace. The vision statement communicates both the purpose and values of the organisation as well as the vision of a company to

employees. It gives direction as to how they are expected to behave and inspires them to commit themselves to providing competent and efficient performance that will allow the organisation to meet its objectives. Jones and George (2003), affirm that a clear vision enhances a wide range of performance measures and serves as a road map for organisations as they move through change (Jones & George, 2003).

The role of a company's vision to customers is that it shapes customers' understanding of why they should choose to be with the organisation. ABSA's vision is to be a customer-focused financial services group in targeted market segments. ABSA applies a customer-centric business model with targeted business units serving specific market segments. The Group interacts with its customers through a combination of physical and electronic channels, offering the full spectrum of banking services, from basic products and services for the low-income personal market to customised solutions for the commercial and corporate market (McKay, 2008).

3.5 PURPOSE OF THE MISSION STATEMENT IN ABSA

Mission Statements follow a similar pattern with the norm to define the organisation's purpose and primary objectives. Its prime function is internal with the specific aim of defining the key measure or measures of the organisation's success, its prime audience being the management team and shareholders (Jones & George, 2003). According to Jones and George (2003), mission statements provide answers to the following three questions that set a company apart from similar companies:

- What is our business-the service or product?
- Who are our clients or the market?
- How will we provide this service or technology?

ABSA's mission statement also ensures unanimity of purpose within the whole group and serves as a basis for resource allocation.

3.6 ABSA BUSINESS CORE VALUES

According to ABSA's Annual Report (ABSA, 2008a), the bank has the following values to sustain the business:

- Value their people and treat them with fairness.
- Demonstrate integrity in all their actions.
- Strive to exceed the needs of customers.
- Take responsibility for the quality of their work.
- Display leadership in all we do.

3.7 ABSA COMPLIANCE ON THE MZANSI INITIATIVE

According to Arya *et al.*, (2008), Absa increased its footprint in locations where the group was under-represented through the Mzansi initiative. Arya *et al.*, (2008) affirms that a combination of brick-and-mortar branches, electronic channels such as ATMs, innovations and container branches, have contributed to the bank's success in achieving the objective of increasing its footprint in South Africa.

ABSA participates in an industry workgroup that develops banking products for previously unbanked South Africans and consumer education programs to assist unbanked people in making appropriate financial decisions. ABSA is a market leader in establishing the Mzansi banking account.

3.8 ABSA GROUP STRUCTURE

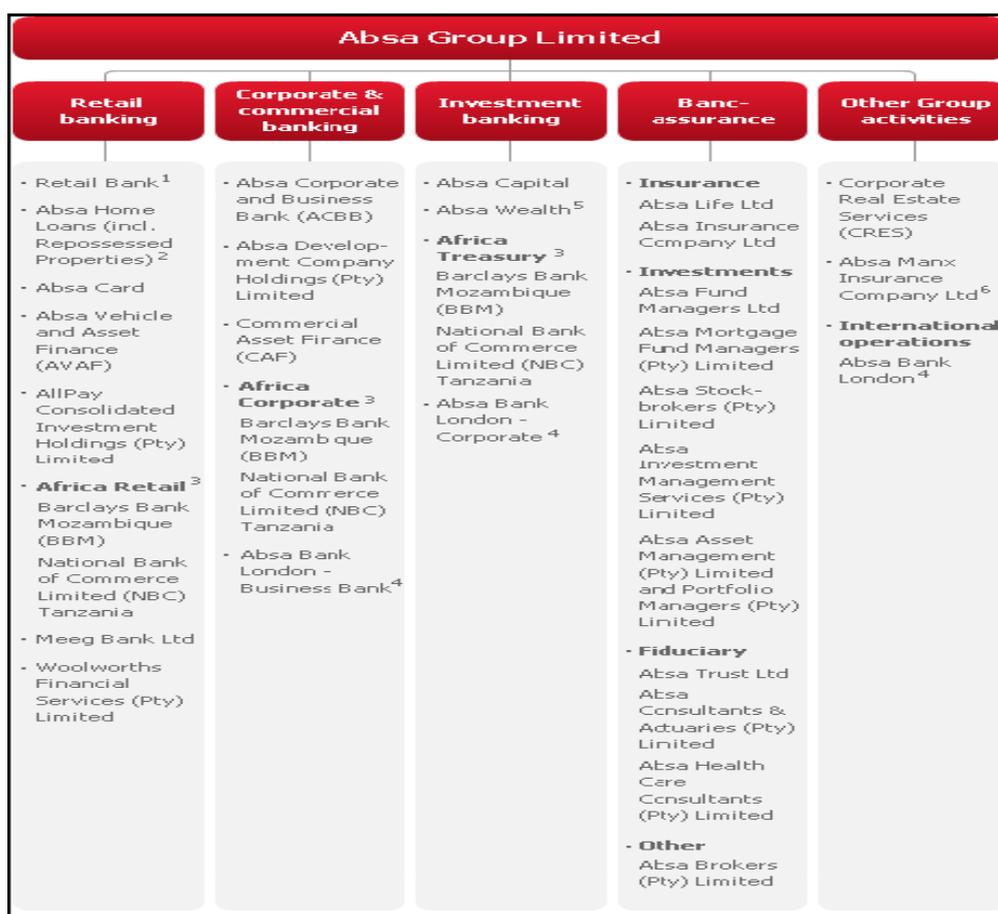


Figure 3-2: ABSA group structure
Adapted from ABSA (2005)

3.9 PRODUCTS AND SERVICES

ABSA Bank Limited offers a range of banking and financial products and services to personal, commercial, and corporate customers in South Africa. It has a range of private banking products and services that include savings, current, and basic banking accounts; credit and debit cards; investment products comprising equities, unit trusts and offshore investing products (ABSA, 2003b).

3.10 ABSA MZANSI BANK ACCOUNT (AMBA)

According to ABSA (2008a), ABSA Mzansi bank account (AMBA) is a simple and affordable basic account with the purpose of giving access to banking facilities to people who did not have any kind of transactional or savings account with ABSA, to share in basic banking activities. Mzansi account holders get the following

benefits from the ABSA Mzansi bank account (AMBA) features and benefits of Mzansi obtained from the ABSA website are as follows;

- The account holder needs to deposit R10 to open this account.
- Mzansi account holders do not need to keep a minimum account balance every month.
- The highest account balance allowed is R15 000.
- If an account balance is greater than the limit of R15 000, the account will be systematically "frozen".
- If a withdrawal or purchase on the Mzansi account is required while the balance is greater than R15 000, clients are advised to visit an ABSA branch for assistance.
- Interest is paid monthly on positive (credit) balances and is calculated on the minimum monthly balance on the account. There are no monthly administration fees or initial card issuing fees on this account.
- Card replacement (lost/stolen), a replacement fee is charged
- Mzansi account holders are allowed five (5) deposit transactions per calendar month.
- One free deposit is allowed on this account, per calendar month.
- The remaining four cash deposit transactions at an ABSA ATM or over the counter for the calendar month are at a basic deposit fee.
- Cash deposit transactions more than the five (5) deposit transaction limit per calendar month will result in the basic deposit fee and an additional transactional fee.
- Debit and Stop Orders are allowed for the Mzansi account.
- The advantages of Cell phone banking are available for transactions on the Mzansi Product.

3.11 MZANSI AFFORDABILITY

The AMBA is a transaction account that is cost-effective for individuals who perform a small number of basic banking transactions. Only one account is allowed per individual with a maximum balance of R15 000 (ABSA, 2008a).

While the PUULIE in South-Africa have been afforded access of joining the financial mainstream and to take part in the country's economic activities, a large number of people are still without a bank account. South Africans, especially poorer individuals within LSM 1–5, prefer to transact in cash. Most (95%) claim to pay cash for groceries, rather than the next most used mechanism of payment, debit cards, with the much lower figure of 2% (FinScope, 2006).

3.12 AMBA TRANSACTION FEES

The ABSA fees for common transactional tasks, including cash deposits, cash withdrawals, balance enquiries and statements are tabled below.

Table 3-1: Fee structure for Mzansi account

AMBA CHARGES	Branch Counter	ABSA ATM	Saswitch	ABSA Supported ATM	Point-of sale	POST OFFICE TERMINAL
Cash withdrawal	R10.00	R4.50	R4.50	R4.50	R4.50	R10.00
Balance Enquiries	R2.45	R1.00 (first 2 free per month)	R1.00	R1.00	R1.00	R2.45
Statement fees	R2.45	R1.00 (mini statement)	N/A	N/A	N/A	N/A
Account payment	R17.50	R5.00	N/A	N/A	N/A	N/A
Fund transfer	R17.50	R3.00	N/A	N/A	N/A	N/A
Charge for insufficient funds	N/A	No charge	No charge	No charge	No charge	N/A
Cash deposit	R10.00	R4.50	N/A	No charge	No charge	

Adapted from ABSA (2008b)

3.13 ABSA BUSINESS STRATEGY

ABSA business strategies entail entrenchment of ABSA's leadership position in the retail banking market, where attention is particularly given to retaining longer-dated anchor products, enhancing service levels, and promoting customer loyalty (ABSA, 2008a).

3.14 ENVIRONMENTAL FACTORS

The assessment of the main impact of external factors to ABSA is helpful, and groups these together using the acronym PEST. PEST stands for the four areas that represent the most common influences which are rendered outside the company's direct control, and those are: political, economic, socio cultural and technological factors. The researcher opted to use Porter's framework, the SWOT analysis, for this case study. The power of the analytical tools has been harnessed with the view that many problems facing the organisations are the result of a combination of variables. There are external factors that directly impact on, and could be grave constraints on ABSA.

3.15 PEST FACTORS

- The impact on demographic factors reflecting on changes in the average conditions with regard to age, geographic location, income and education of ABSA's present and future markets.
- The impact on cultural factors concentrating on emerging fashion or life-style trends.
- The evaluation of government controls, such as the availability of subsidies, imposition of safety and operational regulations, and price controls.
- The impact of technological change in which research and development projects are carried out to benefit from new technology in order to support the bank's competitive products.

3.16 ABSA INTERNAL AND EXTERNAL FACTORS

- **Strengths:** The bank enjoys economies of scale due to its presence in several countries and continents, an array of products and services and largest market share.
- **Weaknesses:** There is a lack of focus on core competencies and key success factors.
- **Opportunities:** The South African government policies of poverty alleviation and equality initiatives resulted in the emergence of the lower

bracket moving into the upper economic class, present opportunities. There is a vast market whose needs can be satisfied by ABSA.

- **Threats:** South African customers are complicated, demanding and price sensitive. The emergence of cost effective financial instruments, like the PEP store's affordable insurance package and the accumulation of Shoprite's stamp collection, are utilised by the masses of low income earners.

3.16.1 External Factors

Prudent fiscal policies, a firm monetary policy and a strong regulatory framework meant that the ramifications of the global financial crisis have been limited in South Africa to date (Reserve Bank, 2005). ABSA chairperson Gill Marcus (ABSA, 2008a), states "South Africa is not an island; there is no doubt that the global economic conditions will impact domestic growth". The ABSA management expressed concern in the company's year-end reports that South Africa as a country has not been immune to the global fallout and that the domestic equity market suffered in line with international markets. The currency experienced heightened volatility arising from the risk aversion associated with emerging markets (ABSA, 2008a).

3.17 FINANCIAL PERFORMANCE MEASURES

There are many ratios that are used by financial institutions to follow profitability trends over time (Appendix A). ABSA Bank uses the following salient ratios to trace its business performance:

- Return on average equity
- Return on average assets
- Cost-to-income ratio
- Earnings per share
- Headline earnings per share
- Dividends per share.

3.18 CHAPTER SUMMARY

In this chapter, the researcher presented the ABSA case study. Literature and data were collected from the ABSA domain, FinMark Trust and FinScope Trust reports. The chapter focused on the ABSA group structure, and services provided by the group, with the Mzansi initiative being the main focus of the study. The shareholding, its vision and mission and the current business environment in which ABSA operates, were key aspects discussed.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 INTRODUCTION

The previous chapter was demarcated for ABSA case study. This chapter aims to discuss the study's methodology. To this end, the research approach, research design, piloting exercise, sampling techniques and procedures, data collection as well as data analysis methods applied will be explicated. Validity of research results emanating from this study will also be discussed at length.

4.2 RESEARCH METHODOLOGY

4.2.1 Research Approach

The research adopted the qualitative approach through exploration and description of research phenomena. In addition to proving insight into subjective realities of individuals, the qualitative research paradigm seeks to understand how people adopt and adapt to regular life situations and negotiate them to suit individual circumstances (Fouche & Delpont, 2005). Qualitative research aims to understand study phenomenon subjectively. Further, qualitative studies are concerned with location and context specific social behaviour instead of attempting to generalise (Fouche & Delpont, 2005; Babbie & Mouton, 2001).

Strategies in qualitative research involve unstructured interaction with participants through interviews, participant observation and unobstructive observation. Sarantakos (2005) purports also that this method of studies are most relevant where there is limited empirical data on a subject. Hence, qualitative research yields massive descriptive data which is reported in its original form with little application of deduction strategies (Fouche & Delpont, 2005; Mouton, 2005; Babbie & Mouton, 2001).

Exploration on the other hand is relevant for studies of phenomena on which there is little empirical information (Sarantakos, 2005; Babbie & Mouton, 2001). It entails examining trends in human interaction as well as engaging with study phenomena

from a vantage point of proximity through methods such as interviews and review of personal documents and diaries (Babbie & Mouton, 2001). Qualitative research strategies, specifically exploration, are found to be relevant for application to this study due to the relative scarcity of empirical literature around the subject of Mzansi accounts, a new initiative in South Africa. Additionally efforts to incorporate low income earners into the banking system are rare worldwide thereby further limiting available information sources on the subject. Moreover, banking is both dynamic therefore attempts to scrutinise this sector should ideally be flexible. The following qualitative strategies which will be explicated in detail below were applied in this study: purposive sampling, observation and discourse analysis. The relevance of the foregoing strategies will also be demonstrated and their function in ensuring the reliability and validity of the findings of this research explicated.

4.2.2 Research Design

As discussed in the previous chapter, this study adopted a case study design. The case's understudy was the Mzansi account specifically within ABSA bank. A case study is one of several ways of doing research. Case studies thrive on the multiple sources of evidence used, be it social science related or socially related. It is an in-depth investigation of a single individual, group, incident, or community. Other ways include experiments, surveys, or analysis of archival information (Blumberg, *et al.*, 2005).

According to Yin (1984), case studies investigate phenomena within their real life contexts with the use of empirically acceptable methods and standards. Any unit of analysis such as an event, entity or individual may be defined as a case for the purpose of case studies (Yin, 1989 as cited in Noor, 2008; Yin, 1984). Typically, case studies examine interrelationships between specific events or conditions and are relevant when there are no clear-cut boundaries between phenomena and contexts (Yin, 1984). Case studies are also relevant for studying complex real life situations which may not adequately be represented by structured research approaches (Noor, 2008). Noor (2008) explains further that, case studies do not study entire research populations but rather they focus on minute features within study populations through in-depth examination and analysis. Moreover, case

study research may be used in its own right and more often is recommended as part of a multi-method approach or triangulation (Garson, 2002).

In this case study a multi method approach was applied by way of conducting both, a literature study of relevant documents and an observatory study of two diverse locations as explicated under sampling below. The triangulation efforts applied to this study aimed specifically at strengthening the internal validity of the research findings.

A case study is a worthwhile way of exploring existing theory and data to generate answers to the why, what, and how questions (Saunders, Lewis & Thornhill, 2003). Soy (1997) highlights a step by step case study methodology promoted by Yin (1984) as follows:

- Determine and define the research questions
- Select the cases and determine data gathering and analysis techniques
- Prepare to collect the data
- Collect data in the field
- Evaluate and analyse the data
- Prepare the report

Limitations of the case study design should be acknowledged. The most frequent criticism levelled against the application of case study research design is that they do not yield generalisable results (Johnson, 1994 as cited in Noor, 2008). It should be pointed out however that generalisability is considered a weakness rather than strength of qualitative research designs (Babbie & Mouton, 2001). Qualitative research designs such as case studies therefore do not aim to generalize, but rather to proffer context and case specific results. The foregoing is the principle on which the rationale for the choice of case study as the design for this study is based.

According to Hussey and Hussey (1997), researchers can adopt the following case study methods:

- **Exploratory case study method:** An exploratory case study means that there are few theories or a deficient body of knowledge. This type of case

study method is practical where there is appropriateness and uncertainty about what the situation under assessment is really like.

- **Descriptive case study method:** Descriptive case studies are undertaken where the objective is restricted to describing the current practice. This method primarily describe what is happening and why, to show what a situation is like.
- **Illustrative case study method:** This method attempts to illustrate new and possibly innovative practices adopted by particular companies through illustrative case study. The Illustrative case study method also gives the practicality and clarity of subjective information.
- **Experimental case study method:** In this method researchers can examine the difficulties in implementing new procedures and techniques in an organisation to evaluate the benefits.
- **Explanatory case study method:** Researchers use existing theory to understand and explain what is happening within the entity at a point in time.

This study finds home in both the explanatory and exploratory case study research methodology (Blumberg *et al.*, 2005). **This study employed the exploratory and descriptive methods as explicated above.**

4.2.3 Data Sampling

Unlike random sample surveys, case studies are not representative of entire populations, nor do they claim to be. Case study research is not methodologically invalid simply because selected cases cannot be presumed to be representative of entire populations (Blumberg *et al.*, 2005). Put another way, in statistical analysis one is generalising to a population based on a sample which is representative of that population. Systematic non-probability sampling in the form of purposive sampling was instead applied to the study.

Purposive sampling which is also referred to as judgemental sampling is based on a researcher's knowledge of a population. It is said to be the most applicable strategy for constituting samples of diverse populations of large magnitudes (Babbie & Mouton, 2001). This sampling technique was found to be appropriate for this study as a consequence of the insurmountable magnitude of the study population (all the ABSA banks in South Africa) as well as the unit of analysis which is Mzansi bank accounts. ABSA operates nationally thereby making it logistically impracticable to attempt to account for all its structures or the population of this study. Hence, a subjective but informed selection of a sample was warranted.

Limitations of purposive sampling should be specified at this point. Purposive sampling carries the inherent limitation of placing vast discretionary powers on the researcher, which can be a threat to a study's internal validity. The fore mentioned limitation has been mitigated by the researcher's extensive experience in the field of banking and the study receiving support from acclaimed finance managers who are also experienced researchers at the Graduate School of Business of the University of KwaZulu Natal.

In this study, purposive sampling was employed by selecting two distinct rural areas of Nqetho, Molweni and Nongoma. The fore mentioned study areas are rural areas of KwaZulu Natal with varying degrees of infrastructure development. Nqetho and Molweni are based in Central KwaZulu Natal in the area which is collectively referred to as the Valley of a Thousand Hills. The Valley of a Thousand Hills is a range of hills at the bottom of which lies a valley. It lacks basic services such as tarred roads and electricity. Agricultural activity at the valley is diminutive as a consequence of unconducive terrain. Nongoma on the other hand is an agrarian location of Northern KwaZulu Natal situated on flat land. It is serviced with a tarred road and electricity. Unlike the Valley of a Thousand Hills Nongoma has malls and consequently significant economic activity. The two distinct location where thus found to be appropriate locations of the study as they were deemed as having the potential of producing a broad spectrum of findings thereby enhancing the validity of the findings of the study.

4.2.4 Data Collection

As promulgated, case study research design applies multiple methodologies (Noor, 2008; Yin, 1984). In line with the foregoing specification of case studies, this study conducted both a literature study and an observational study. Observation in the study was undertaken by way of simple observation. In simple observation, a researcher watches real life actions as they occur in their natural settings. Actions are then noted either qualitatively or quantitatively. It is pertinent to note that in simple observation the researcher remains an outsider and aims as much as possible not to interfere with study objects (Babbie & Mouton, 2001; Leedy & Ormrod, 2001). Observation is analogous to ethnography in that a researcher assumes physical proximity to study phenomena while maintaining researcher objectivity (Babbie & Mouton 2001). The difference however, is that, ethnographic researchers spend longer at study sites as compared to observation researcher.

In this observation study, data collection took place over a period of four weeks in which the researcher spend time making and recording observations during the morning hours till 14:00 hours in the Meridian time. The decision to undertake an observational study was informed by several unsuccessful attempts to elicit information from people in strategic positions within ABSA Bank on Smith Street in Durban.

Firstly, the researcher undertook an exploration of study sites to determine the extent of banking facilities available. Secondly, the researcher mingled with residents of the study areas in public transportation, at shopping malls and at ATMs. The researcher, for the purpose of the study, utilised public transport to travel to and from study areas. During these periods the researcher observed the banking and spending patterns of people living in the mentioned rural areas, transport costs and the rationale for travelling to Pinetown rather than to Hillcrest shopping malls, which are nearer to Nqetho and Molweni. The researcher recorded these observations in field notes.

It should be pointed out the decision to undertake an observational study was made subsequent to meticulous consideration of other research methods.

Researchers tend to evaluate the feasibility of the study paying more attention to time money and ethical constraints. In this study the researcher placed more emphasis on methodology restrictions .The researcher examined the advantages and disadvantages of quantitative and qualitative research methods such as interviews, questionnaires, observation, and experiments to case study research methodology.

This study followed literature review observation, and case study methodology. These research methods were selected due to their flexibility and ability to capture a broad spectrum of information within reasonable time.

4.2.5 Reliability and Validity of the Findings of the Study

Validity of research findings is the extent to which it's design and emerging data supports the drawing of accurate conclusions while reliability is the extent to which a research design can produce consistent results over time (Leedy & Ormrod, 2001). Authorities in the field of qualitative research affirm that reliability is not an imperative of qualitative research (Blumberg *et al.*, 2005; Babbie & Mouton, 2001; Leedy & Ormrod, 2001; Hussey & Hussey, 1997). Leedy and Ormrod (2001) explain further that validity of qualitative research findings may be enhanced through application of the following validity-check mechanisms: "extensive time in the field...and...thick description". Additionally method triangulation may be utilized to enhance validity of research findings (Blumberg *et al.*, 2005). Blumberg *et al.* (2005) posit further that, "The rationale behind using multiple sources of evidence is that, one develops converging lines of inquiry and can apply a process of triangulation. The power of triangulation increases the power of evidence only if sources are independent from each other".

It is under the above declared notions of validity that, the researcher first of all spent considerable time at designated study sites and employed a case study research method combined with observation and literature review, to validate the reliability and the richness of collected data. Moreover, the researcher applied discourse analysis, an approach which makes use of descriptive methods of data analysis.

4.2.6 Analysis of Data

Blumberg *et al.*, (2005), affirm that in a case study, researchers possess ample tools to enable them to analyse adequately any information obtained. On this premise the researcher undertakes to carry out analysis of secondary data gathered through literature review, and the observational study on Mzansi in three distinct rural areas.

The researcher will further analyse ABSA's macro and micro environment in order to determine the performance of ABSA a year prior to Mzansi initiative until 2008. The year 2003 is the year prior to opening of Mzansi accounts. In 2008, five years after the inception of Mzansi accounts, reasonable time could be said to have lapsed allowing concrete performance measurements and conclusions to be made pertaining to the performance of the ABSA relative to the Mzansi account (Appendix B). Finally, ethical approval to conduct the study was obtained from the University of KwaZulu-Natal's Research office (Appendix C).

4.3 CHAPTER SUMMARY

Chapter four was demarcated as a research methodology chapter or as a blueprint for the study. This study followed a case study method with the main objective of determining the impact of the Mzansi initiative on the performance of ABSA.

CHAPTER 5: PRESENTATION OF THE RESULTS

5.1 INTRODUCTION

In this chapter the researcher will present results of the study, drawing facts and theories from the case, literature review and the observational study that was carried out in the rural areas. Results are presented in a form of narrative text, graphs and tables. Graphs employed in this chapter were developed by the researcher and are pictorial representation of data gathered from different sources.

5.2 PERFORMANCE OF ABSA RESULTS 2003-2008

As indicated, results of this study emanate from measures used to evaluate the degree of impact of the Mzansi account on the performance of ABSA. The researcher compiled yearly figures obtained from the bank's annual statements. The financial and non-financial performance of ABSA since adoption of the FSC in 2004 to 2008 will be blended into the discussions, which will also draw on the objective of this study, namely, service delivery section of the Financial Services Charter; affordability, accessibility and ease of use of the Mzansi account. This study borrowed from the Cotter and Fritzsche (1995) framework to analyse the following, ABSA non-financial and financial performance indicators as from the year 2003 to 2008:

1. Number of Automated Teller Machines
2. Staff compliment and number of staffed outlets
3. Number of attained customers
4. Headline earnings per year
5. Cost to income ratio
6. Return on equity and Return on assets
7. Services to rural areas

5.2.1 Indicator 1: Number of Automated Teller Machines (ATMs)

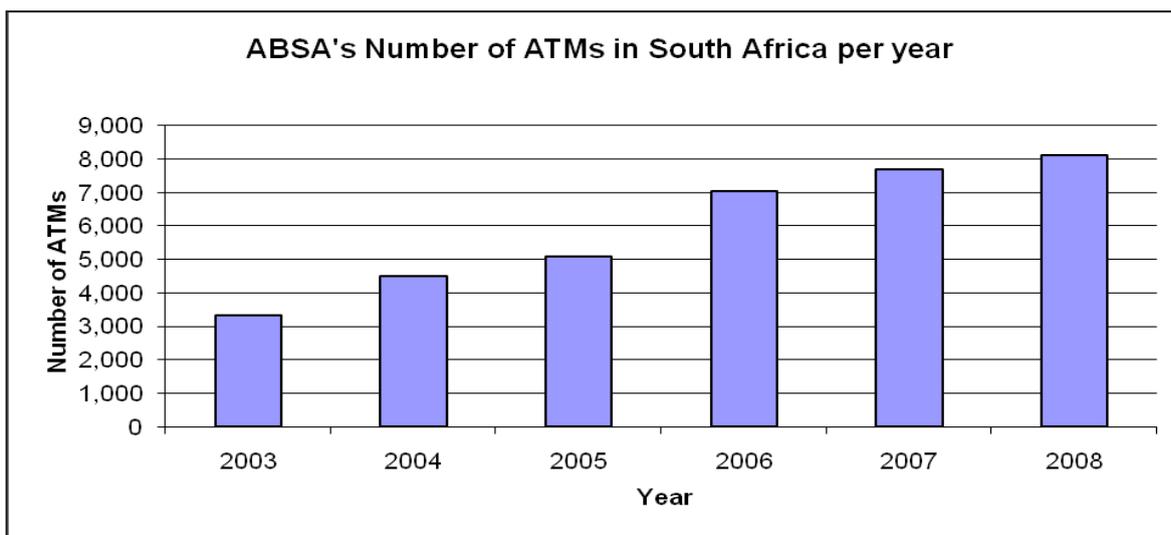


Figure 5-1: Number of ATMs

From a general perspective, ABSA seems to have recorded noteworthy success within the period under review. More importantly, the period between 2004 and 2007 recorded the highest improvement rates in relation to performance of ABSA in all considered variables except for ROE and ROA. With regards to the number of ATMS, ABSA aggregates illustrate a consistent increase with the increment rate reaching its highest point between 2005 and 2006. In this period 2000 new ATMs were installed compared to only about 200 between 2007 and 2008 as denoted above. Otherwise ABSA ATMs increased consistently in number, suggesting ease of use of ABSA facilities for both Mzansi and mainstream account holders. This growth in ATMs further portray ABSA's active role in banking the previously disadvantaged communities in rural and remote areas. On the flipside, the researcher observed that while ABSA has ATM access in most areas, the bank cannot reach the most rural and remote areas due to lack of infrastructure.

In the two rural and remote areas of Nqetho, and Molweni in the Valley of a Thousand Hills, there was no sign of banks and ATMs, people in these area travel to Pinetown and Hillcrest to use banking facilities. However, the researcher acknowledges that banks take precautions and calculated risks in putting up banking services structures in different places, in remote areas and in shopping malls.

5.2.2 Indicator 2: Staff Compliment and Number of Staffed Outlets

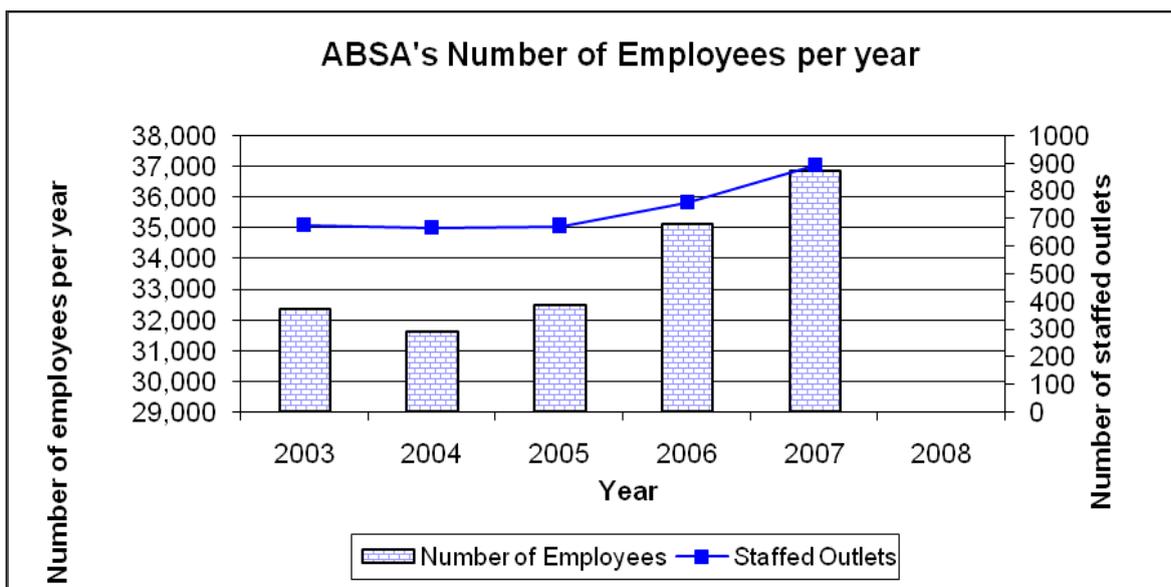


Figure 5-2: Employees and staffed outlets

The results of non-finance performance measures of the staff complement show an increase in the number of staffed outlets and number of employees from 2003 to 2007 (Figure 5-2). Between 2003 and 2004, however, a significant decline in the number of employees was recorded while the number of outlets remained constant. There is a gradual increase starting from 2004 and in 2005 the two variables rose sharply. For instance, in only two years, between 2005 and 2007, the number of employees almost doubled from just below 33, 000 to 35,794 while staffed outlets rose from 700 about 900 in the same period. At the time of the study, statistics for the two variables represented pictorially above for the 2008 were not available from ABSA websites. It should be noted further that, ABSA reports accessed by the researcher did not stipulate the aggregates of the foregoing variables according to respective RSA provinces. The statistics however, signify growth in ABSA's outreach towards banking more people.

It is noteworthy that, this growth in staffed outlets and an increase in the number of employees are an indication of a rise in costs for the bank. According to ABSA (2008a) 2005 is the year in which Barclays Bank procured a large percentage of shares within ABSA.

5.2.3 Indicator 3: Number of Attained Customers

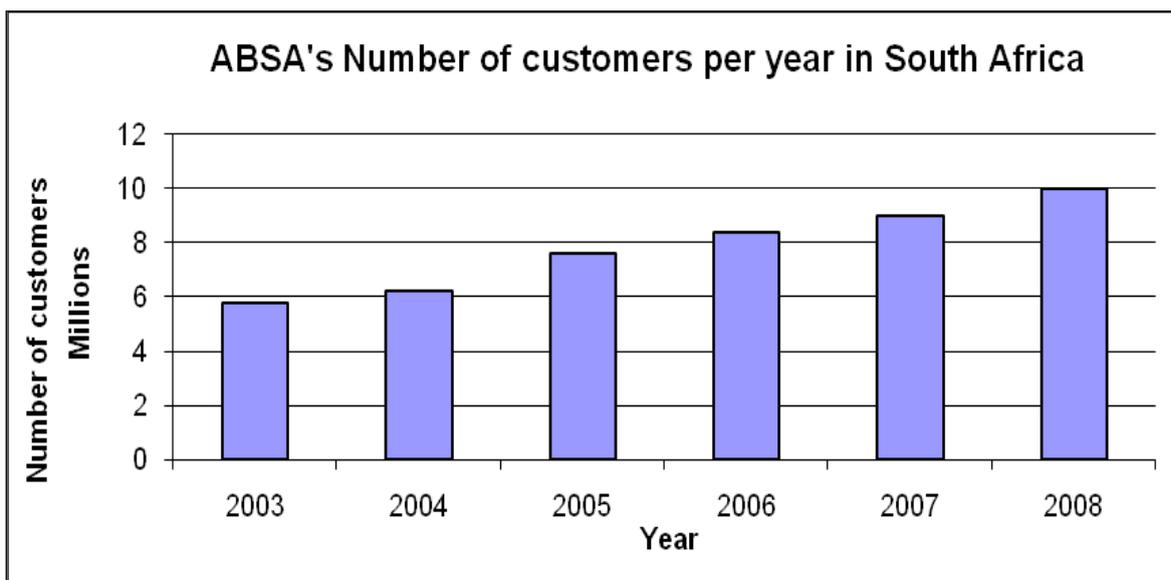


Figure 5-3: Number of ABSA customers

ABSA's customer base increased gradually over the years since 2003, and the bank reached a mark of over 10 million customers by 2008. Notably, the period between 2004 and 2005 saw the sharpest increase in clientele. In this period, approximately 1, 5 million new clients opened accounts at ABSA, and clientele figures rose from 6.2 million in 2004 to 7.6 million in 2005.

The number of customers who opened accounts in one year between 2004 and 2005 is almost equivalent to those that opened them in two years between 2006 and 2008. In the 2006/2008 period clientele grew from 8, 4 million to 10 million or a growth of 1, 6 million customers. The sharp increase in the number of customers between 2004 and 2005 corresponds with the increase in the number of ABSA employees in the same period.

ABSA ATMs also increased in the same period. To compare the four salient variables of non-financial performance indicators between 2004 and 2005, employees, customers and ATMs increased significantly while the number of staffed outlets remained stagnant. Across all variables except customers, the most significant increases were recorded between 2005 and 2007 while outstanding customer increases were recorded in 2004. The lowest rate of increase in the

number of customers was recorded between 2006 and 2007 at 8, 4 million to 9 million. However, both the number of employees and that of ATMs rose within this period.

ABSA has been noted as the most popular and the most preferred bank in South Africa, and held a number one market share position for individual account deposits. The more clients the bank has, the more profitable it becomes. On the flipside, 10 million customers call for a robust infrastructure.

5.2.4 Indicator 4: Headline Earnings per Share

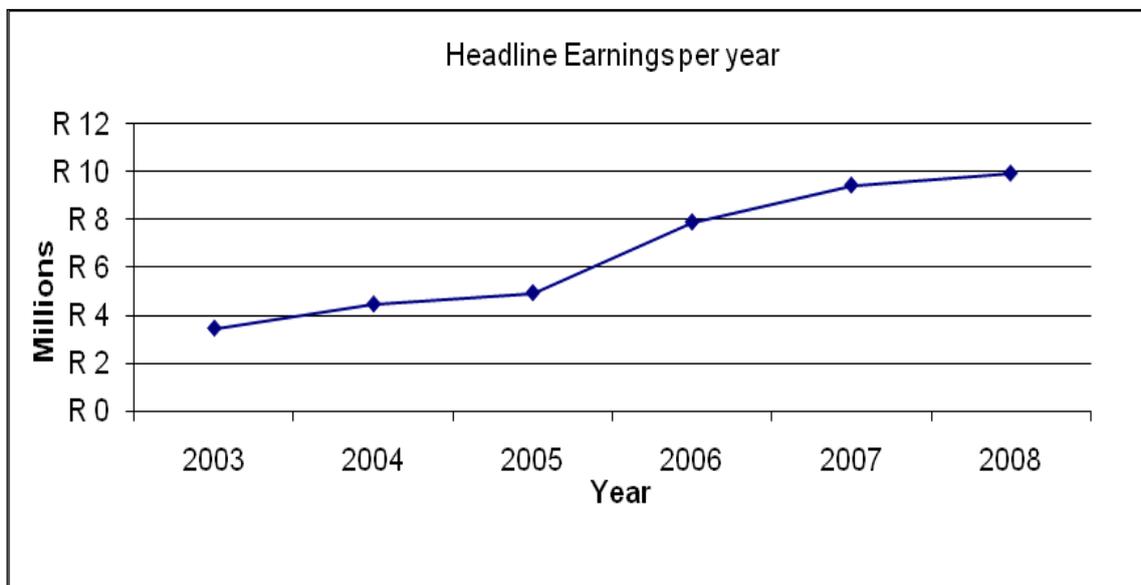


Figure 5-4: Headline earnings per share

Headline earnings per share (HEPS) have been growing steadily from 2003 up to 2005. HEPS sharply increased from 2005 and recorded the R10 million mark by 2008. The result is marked as a good performance for ABSA. These findings are congruent with findings under non-financial performance indicators above whose incremental rate rose steadily up to 2005 at which point an outstandingly high increment was attained and subsequently declined between 2005 and 2006. Notably, the sharpest increase in headline earnings per share was recorded between 2005 and 2006. HEPS almost doubled from around 4.5 million to 8 million in this period. Again, this rise in share earnings coincided with the procurement of

majority shares by Barclays Bank. Overall, the rise in earnings per share seemed to cease to increase at an increasing rate at the end of 2007, where at the rate of increase declined.

5.2.5 Indicator 5: Cost-To-Income Ratio

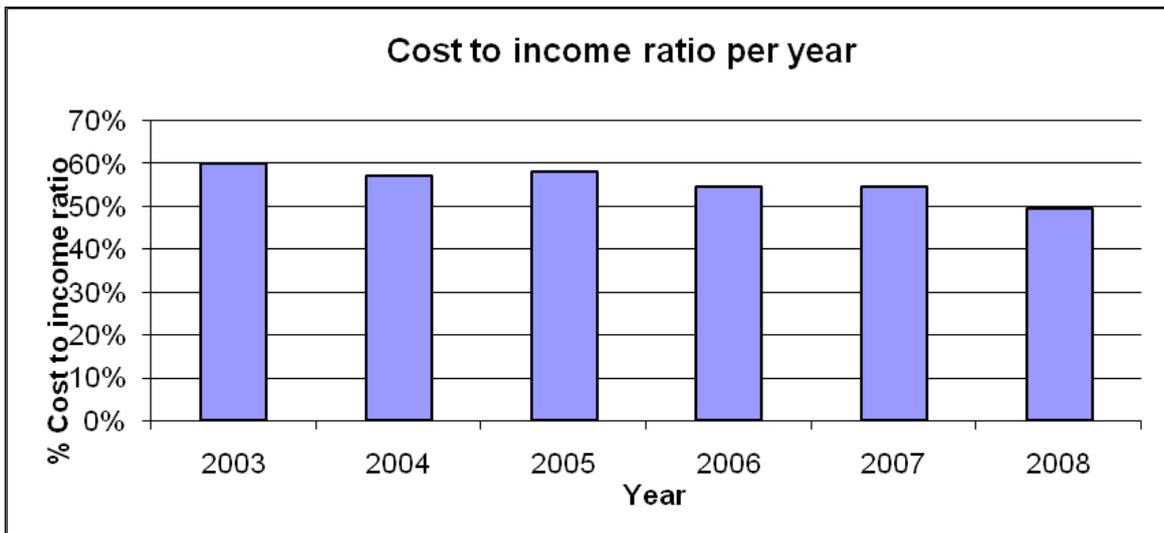


Figure 5-5: Cost to income ratio

Cost to income is an important indicator of business performance. A cost to income ratio of more than 50% is a significant signal of vulnerability of a business. When the cost of running a business exceeds its income, the liquidity of a business is adversely affected. The cost to income ratio of ABSA in the examination period seemed to have been consistently high as postulated on the bar chart above. However, a decline was evident between 2005 and 2006. Between 2006 and 2007 the ratio remained constant. For instance, cost-to-income ratio ranged between 60%- 55% since 2003, and fell out of this bracket to 49.4% in 2008 as income growth exceeded cost growth. This mark is an improvement compared to other years under review. These findings are synchronous with those under headline earnings per share which portrayed the sharpest incremental rate between 2005 and 2006 and seemed to stabilise by 2008.

5.2.6 Indicator 6: ROE and ROA Ratios

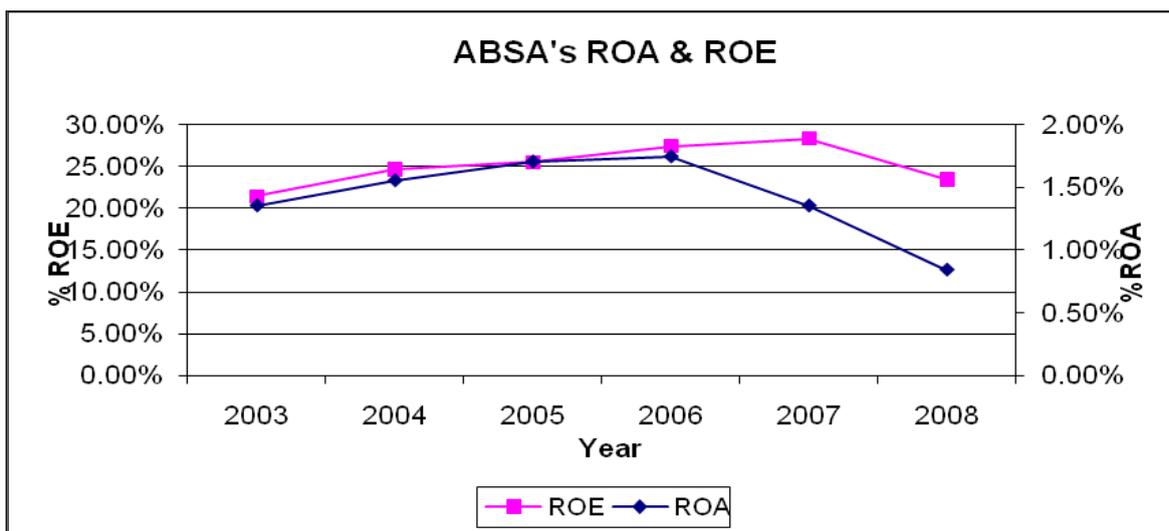


Figure 5-6: ROE and ROA (2003-2008)

Findings of ABSA's ROA and ROE in the period under examination seem to be in concert. The trend of the performance of the two mentioned variables as depicted above portrays a steady rise followed by a sharp decline. For instance, ROE rose from 20% in 2003 to 25% in 2004. It then stagnated between 2004 and 2005, then rose sharply up to 2007 and then dropped from 28.3% to 23.4% in 2008. This trend is congruent with the performance of ROA in the same period although the reduction rate of ROA was significantly higher than that of ROE between 2006 and 2008. In the former period, ABSA's ROA dropped from 20% to 15 % contrary to 2003/2005 whereby it rose from 20% to 25%. This drop in performance is not a good sign for ABSA.

While the group's target is 6% above cost of equity, a drop in ROE in 2008 is not a good sign in the performance of ABSA. However, the cause can easily be traced back to see where the problem cropped from, through the Du Pont analysis tree of ratios. The Du Pont tree of ratios is a relevant tool in this case as it is hailed as a tool which has a strong capacity for identifying factors that may lead to poor business performance (Firer *et al.*, 2004; Gitman, 2003). Such factors will be dwelled on in detail in the subsequent chapter.

The ROE for 2008, the last year under observation, indicates that ABSA delivered a return on average equity of 23.4%, which is higher than the bank's objective to achieve an ROE of 6% above the cost of equity. According Booyens, the Group's Chief Executive, on a relative basis, ABSA's share price performance led its peers among the BIG 4 South African banks (ABSA, 2008a).ROA showed a steady growth since 2003, to level up to the highest point in 2005, and sharply dropped to 0.84% level in 2008. This ratio measure the extent assets sweat to create value for the company. The sharp drop is not a good sign for the group's performance.

5.2.7 Indicator 7: Service to Rural Areas

As indicated in the methodology chapter, in addition to a literature review, the study undertook an observational study to determine the level of service provision by ABSA in two distinct rural areas of Kwa-Zulu Natal, South Africa namely, the Valley of a Thousand Hills and Nongoma.

Findings of the observational study suggest that ABSA may not be distributing its services to the rural areas as stipulated by the FSC. For instance the observation revealed that there were no ATMs or staffed outlets in the Valley of a Thousand Hills which houses an estimated total of 10 thousand bankable South Africans. In addition to ABSA ATMs, the Valley was not serviced with infrastructure such as roads telephone and electricity lines.

Additionally, a fundamental observation made by the researcher was that the community of the Valley reared livestock on a small scale, which could be a strategy of circumventing absence of banking and other services within their vicinity. Livestock by their nature are a risky investment option compared to banking. With regards services, the Valley of a Thousand Hills has primary schools and a health centre. Some small business enterprises such as general dealerships were also identified in this area during the study. Lastly, the Valley is a tourist attraction site due to its unusual topography. The prevalence of the fore mentioned services and tourism in this area implies a significant number of people who can be found in the Valley at intervals and who consequently require banking services hence their relevance to this study.

On the trip to and from the Valley, it was further observed that commuters paid fare for both trips on the way back to the Valley from Pine Town. This suggested that a motivation for commuters to travel to Pine Town may be to access funds. Further, on continuing observation in Pine Town, the researcher observed long queues of people outside ATMs specifically in low-cost business areas such as those located in the vicinity of taxi ranks. Queues outside ATMs in these areas suggest that low income earners or PUULIE, who are identified as the target for Mzansi accounts, prefer to withdraw cash rather than use their debit cards for purchases.

Observation of banking services and banking patterns of PUULIE in Nongoma yielded results which vary from those of the Valley. Firstly, it should be pointed out that Nongoma is a business growth point or an area which is designated as an inception point for the development of a town. It therefore has a full complement of services such as schools, private and public health facilities including a hospital, small to medium enterprises as well as some chain stores, as picked up during the observational study. The relevance of the fore mentioned services to the study is that they seem to inform the provision of banking services in an area.

The population of Nongoma as deduced from the size of the settlement and the conglomeration of people at the business cite, can be estimated at double that of the Valley of a Thousand Hills. As a result of its services and that it is the seat of the Zulu royal homestead, Nongoma is a more robust tourist area compared to the Valley. Small lodges were also discernable during observation at Nongoma. It was, hence, relatively better serviced in comparison to the Valley.

Business activity is more vibrant in Nongoma. In Nongoma, the researcher found about 5 ABSA ATMs in total and 3 staffed service outlets. While this amounts to better access to automated banking services relative to The Valley of a Thousand Hills, it still fails to meet the charter's stipulation of a service provider within every 10km radius of households. The mentioned ATMs and staffed outlets were all located within the business area.

5.3 PATTERNS OF SAVING MONEY

The Financial Diaries study, reported that South African households held little or no precautionary savings. Any savings, other than 'in-house', were often accumulated in *stokvel* or savings clubs for a specific purpose (Collins & Taljaard, 2005). Through the financial diaries Collins and Taljaard (2005), observed the following traits within South Africans in their ways of using both formal and informal structures to save, and are as follows:

- House-holds in South Africa save diligently, though not always in banks but in their own informal structures. An additional barrier that households face in accessing the most basic services is a lack of financial education.
- The South African ways of saving paint a picture of continued use of informal mechanisms and this practice is not due to a desire to maintain social solidarity, but also because such mechanisms suit their needs in a way that formal instruments do not.
- All mechanisms, taken together, are needed to provide the level of reliability, flexibility, and discipline that household's demand. The PUULIE market hopes to get flexible ways to address unexpected events and, contrastingly, structured devices that impose discipline in order to save.
- Findings of the financial dairies on people's spending revealed that most households seek general financial services, not micro-loans for micro-enterprise. PUULIEs actively seek ways to borrow and save and to a greater extend some kind of a backing mechanism in cases of emergency particularly to cater for burials, is sought.
- It has been found that informal instruments are not crowded out and often provide services that formal instruments do not in times of need. The formal financial mechanisms do not tend to easily displace the informal. Even the wealthiest households using extensive portfolio of bank accounts, formal loans, retirement annuities and insurance, have been observed to still interact with the informal financial sector, primarily in savings clubs and burial societies.

Based on reports and the literature review, the researcher discovered that the PUULIE's tendency to borrow and lend from each other, is a practice which is a

norm and common to South Africans. Several other publications on the financial behaviour and lives of the PUULIE, the following findings emerged:

- The poor have complex financial lives - most households use a range of financial services to meet their money needs.
- Savings instruments are event-bound - usually for marriage, burial, or other routine family events.
- The poor are subject to frequent financial events - including requests to contribute to funerals, traditional feasts, crimes, injury or illness, loss of a regular job, births, and weddings.
- The poor who have access to grants also use a variety of financial instruments.
- While nearly all households pay some form of debt every month, there is a wide divide between those who are heavily indebted and those who are minimally indebted.

(FinMark Trust, 2004; FinMarkTrust, 2008, Collins, 2005; Collins & Taljaard, 2005).

5.4 MZANSI MILESTONES

The Mzansi Initiative reached the aggregate Charter target of 2,173,930 active accounts by December 2008. A majority of these accounts were opened by the targeted LSM 3-5 range, and two-thirds were opened by first-time banked people. Of the four private banks to which individual targets applied, two reached their target, and two did not. In broader terms, Mzansi was widely recognised by politicians and other commentators as a key delivery initiative under the charter. Expectations of banking the PUULIE were exceeded with respect to take-up, but not met in terms of revenue, where the expectation was to reach at least a break-even point by banks.

The revenue per Mzansi account and the balances on the account are substantially lower than the banks' nearest equivalent accounts (NEAs), such that the BIG4 generally report losing money on each account, even when considering only the direct costs. Mzansi appears to have met the needs of its clients. While levels of inactivity are high the inactivity levels have been observed to be driven by economic reasons rather than disapproval of the product. Mzansi has decisively

shifted the frontier of access to financial services in South Africa. As a result, close to 80% of the population is now within reach of transactional banking services.

5.5 CHAPTER SUMMARY

This chapter drew information from the literature review and the observation study and also used the findings from previous studies related to financial and non-financial performance measures, to discuss pertinent issues. The Mzansi initiative has been the main focus of this study as a growth option and the government's aspiration to servicing previously disadvantaged people. The business environment around banking of millions of the PUULIE has been a challenge posed to ABSA's resources and infrastructure.

CHAPTER 6: DISCUSSION OF THE FINDINGS

6.1 INTRODUCTION

The previous chapter presented the results of the study. This chapter is demarcated for the study discussion. The researcher's discussion will be based on chapter five, and linked to the ABSA Mzansi bank account, FSC agreement and the PUULIE Mzansi account holders' perceptions towards ABSA.

Based on the literature review of studies by different scholars, it is clear that financial inclusion of the previously disadvantaged people has unlimited spin offs in terms of contribution to the reduction eradication of poverty and inequality. Besides these recognised socio-economic benefits, banks can improve their customer base and increase their returns. The foregoing notion will be demonstrated by the following discussion.

6.2 WHAT HAS BEEN THE IMPACT OF MZANSI ON ABSA'S PERFORMANCE?

The impact of Mzansi on the performance of ABSA is not easy to calculate in terms of the group's performance as a whole, as Mzansi activities within the ABSA group are very insignificant. This is to say, out of a total 10 million ABSA bank accounts, only about 2 million are Mzansi accounts (FinScope, 2006). Coupled with that, Mzansi accounts are designated specifically for PUULIE therefore it could be argued that the impact of Mzansi on the overall performance of the bank may be minuscule (Schoombee, 2003). However, the charter helped ABSA reach millions of PUULIE. According to FinMark Trust (2008), however, banks generally report losing money on each account, even when considering only the direct costs.

6.3 PERFORMANCE INDICATORS

In spite of the above, findings of this study reveal that in the period between 2003 and 2008 ABSA recorded success in terms of performance in both financial and non-financial performance indicators. For instance, the number of ATMs rose from

3500 from 2003 to 8000 in 2008 while staff complement almost doubled in the same period. Furthermore, an increase in customer base from 4 million in 2003 to 10 million in the period under consideration was attained. Such improvement in service provision by ABSA despite incorporation of PUULIE is attributable to the bank's diversification strategies. However, it is worth noting that Mzansi account holders may have caused the sharp increase in customers which was experienced by the bank between 2004 and 2006.

The cost to benefit relationship incurred by the bank on resources and infrastructure as a consequence of intake of millions of new clients versus interfaces with frontline staff, ATMs and brick and mortar facilities and process. The group's salient ratios show that ABSA was not strongly impacted by servicing the Mzansi customers.

However, while improvement in performance was recorded from a general perspective, 2003/2004 period experienced a slag in performance. For instance in this period expansion in service structures slowed down or ceased altogether: ATM expansion slowed down, the number of staffed service outlets remained constant while staff numbers declined. It should be recognised that the fore mentioned period was a pre-election period in South Africa which was characterised by power struggles within the ruling party.

This may have led to uncertainty regarding the post-election period particularly in light of African governments' history of civil strife immediately following independence. Additionally, South Africa is reputed for its violent political confrontations. The foregoing factors and pre-election uncertainty may have resulted in prospective investor hesitation as well as disinvesting by some investors. Moreover, 2004 marked the year for general elections in the country therefore current and prospective investors may have exercised caution *in lieu* of investing in anticipation of any adverse post-election eventuality. Hence, relatively adverse performance of ABSA within this time period may have been the direct result of political uncertainty and tension in the country during the 2003/2004 period.

In addition to the unfavourable political situation in South-Africa in the former period, investor confidence may have been adversely influenced by the ostensible political interference in national and multi-national companies. For instance, the ostensible halt in expansion of ABSA services coincides with the enactment of Broad Based Black Economic Empowerment Act of 2003 and the ensuing FSC which implied a politically motivated overhaul of staffing and operating patterns of businesses. This milieu may have resulted in investor hesitation leading to a halt in growth of businesses including ABSA.

The period after national government elections witnessed a sharp increase in service outlets and other performance indicators of ABSA. While the number of ATMs continued to rise throughout the period under consideration, a particularly sharp increase in the number of ATMs was evinced from the year of elections to 2006. While, this may be a direct result of the bank's attempt to meet the demand for services posed by Mzansi account holders, stabilisation of the political climate may have been another incentive for both ABSA and investors worldwide to broaden the spectrum of ABSA. Notably, while the number of ATMs rose, the number of staffed outlets remained constant between 2003 and 2005 which could be in line with the bank's position of rendering services to Mzansi account holders mainly through magnetic strip cards.

Moreover, findings of the study divulge that, both the number of employees and that of staffed outlets as well as the amount of headline earnings per year increased considerably from 2005. As indicated in the literature chapter of the report, the year 2005 is the year in which Barclays Bank procured a large percentage of shares within ABSA. The concerted rise in service outlets and consequently employees is attributable to the improved liquidity of ABSA as a consequence of injection of funds by Barclays Bank. The customer base of ABSA grew proportionately to the increase in service outlets.

Comment on the financial performance indicators is also warranted starting with headline earnings per share per year. With effect from 2005 to 2008, headline earnings per share registered a marked increase with earnings per share more

than doubling from 4.5 million to 10 million for the period. The vigorous expansion of ABSA by way of proliferation of service outlets may be hailed as the reason for such rapid multiplication of headline earnings per share.

Regardless of political stability and rising investor confidence in South Africa particularly during the early years of Mbeki administration, some negative results in performance were recorded. For instance, both ROA and ROE which had previously risen steadily dropped sharply from 2006 to 2008. The former can be attributed to an amalgamation of unpleasant economic factors which were at play both globally and locally around that time. Firstly, according to ABSA Annual Report (2006; 2008) heralded the economic recession which led to an unpredicted rise in interest rates coupled with a rise in household debt by 2008. It should be noted that in 2006 ABSA had just commenced its vigorous asset expansion process as explicated above. The coinciding of the economic recession and ABSA expansion may have caused the fall in headline earnings of the bank.

Growth and expansion of a company has a cost element. The bank's annual reports indicated a yearly rise in expansion related expenses due to staffing and human resource issues, expansion of ATMs, portable and mobile banks to reach among other people the PUULIE. Hence a reduction in economic activity at that time was the likely cause of its economic drawback in the form of declining ROE and ROA between 2006 and 2008.

6.4 WHAT IS THE FUTURE OF THE MZANSI ACCOUNT-HOLDERS WITH ABSA?

Even though ABSA might view this type of account as their least profitable product, they are in a difficult position to discontinue the Mzansi account services, due to the FSCI regulations. However, ABSA has mechanisms in place that allow them to control non-functioning or less profitable accounts.

6.5 DISCUSSIONS BASED ON THE OBSERVATION STUDY

The first FSC objective is about accessing services by previously disadvantaged groups, and is meant to make banking facilities accessible within the radius of 20kms to the nearest service point where a service can be undertaken. A brief discussion on the study on “accessibility” will follow. As elucidated, three separate observations in the following distinct rural and remote areas, Nqetho, Molweni and Nongoma were undertaken for the purpose of this study. Firstly, it should be pointed out that while the literature review of the study yielded some aggregates on the number of ABSA ATMs throughout South-Africa these did not reflect exact numbers of ATMs per province or specific towns, thereby necessitating the observational study whose results are outlined herein. This was carried out in order to determine the level of the bank’s performance specifically in rural areas and to establish the banking patterns of Mzansi account holders.

As indicated in the results chapter, the number of bank’s facilities is positively correlated to the use of or the number of customers a bank possesses. Hence the number of service outlets is regarded as a strong indicator of performance. For instance, between 2005 and 2007 with the rise of ATMs, employees and staffed ABSA outlets, the number of its customers rose proportionately to these services. It was hence considered to be imperative to carry out a head count of services as these strongly reflect performance.

Molweni and Nqetho areas are found in the Valley of a Thousand Hills area which is off Hillcrest in Durban. The researcher studied closely the presence of ABSA facilities in these two areas. In these areas there was no sign of ABSA Bank or ABSA ATMs. This amounts to a direct breach of the central principle of FSC which is to increase banking services to PUULIE. Moreover, small businesses, schools and a health centre were discerned in this area and it was noted that the area is a tourist area thereby suggesting the need for banking services in the area. The researcher observed that people in these two areas have to travel long distances to access ATMs and banks.

Conversely, in Nongoma which is a growth point, although also in a rural location of Durban, there were a number of ATMs and staffed outlets of ABSA. The foregoing points to the direction that, services such as roads, electricity and telephone lines are a strong determinant of the presence of banking services in an area. Both ATMs and banks were concentrated in Nongoma town pointing to the conclusion that, people further in the rural area of Nongoma still lack ease of access of banking services.

Further, results of the observational study imply that PUULIE are not a central consideration in service provision of ABSA as these may be said to be based mainly in the rural areas. The lack of services in rural areas supports this argument. The researcher is aware that Mzansi account holders are authorised to use any of the BIG 4 ATMs.

6.5.1 Objectives of the Mzansi Account

a. Affordability

ABSA has been found to be the country's most expensive bank for customers who use its fixed price package options as well as for those who pay for each individual interaction with the bank on the Pay-As-You-Use basis.

b. Accessibility

ABSA remains committed to expanding its delivery reach, especially by improving its presence in rural and previously disadvantaged communities and by emphasizing the growth of the automated teller machine (ATM) network.

6.5.2 Orientation of Mzansi Account-holders

Provision of 0.2% of the post-tax operating profits of the sector has been demarcated for consumer education. ABSA contributes 0.2% of its profits before tax towards financial services education of the PUULIE. The FSCC is granted

authority to verify the magnitude of training offered to clients and people in rural and remote areas of South Africa (ABSA, 2008a).

6.5.3 What Necessitated the Servicing of the PUULIE Market?

Reports on FSC agreement indicated that the four big banks in South Africa and the PostBank jointly and voluntarily rallied under the auspices of the FSCI to give access to banking services to the previously unbanked South-Africans. This undertaking has been endorsed by several stakeholders with a view to correct inequalities of the past apartheid regime. ABSA in its endeavour to execute its growth strategies took a leading role in expanding its services to the new market PUULIE (ABSA, 2008a).

6.5.4 How do the PUULIE, The Poor and South Africans Perceive Banks?

Previous studies show that the PUULIE still follow their old habits of saving money through informal structures based on emergencies such as burial expenses and school fees. The researcher observed that people from the rural areas have grown accustomed to the availability of ATMs and while they are not yet comfortable with using the speed-point services at shops, i.e. using their debit cards to purchase on tills, they can be seen queuing to withdraw money from the ATMs (FinScope, 2006).

6.5.5 Use off Services by Mzansi Account-holders

Even though Mzansi is regarded as a low level entry account, it has however brought remarkably high numbers of people into the bank, and there has been a substantial amount in capital expenditure. For a major bank with robust and vast operations, as illustrated on Chapter Three, setting up Mzansi services came with a cost since there has been a need for more resources to cater for new clients

6.6 CHAPTER SUMMARY

This chapter drew information from the literature review and the observation study and also used the findings from previous studies related to financial and non-

financial performance measures, to discuss pertinent issues. The Mzansi initiative has been the main focus of this study as a growth option and the government's aspiration to servicing previously disadvantaged people. The business environment around banking of millions of the PUULIE has been a challenge posed to ABSA's resources and infrastructure.

CHAPTER 7: RECOMMENDATIONS AND CONCLUSION

7.1 INTRODUCTION

The previous chapter dwelt on contemporary issues surrounding ABSA's business environment circa 2003 and 2008, in the process addressing the study's research questions. It took a strategic view of probability of the mass market under the FSCI. This chapter is the last of this study, offering conclusions and recommendations.

7.2 IMPLICATIONS OF THIS RESEARCH

This study has made a contribution towards understanding how banks operate and how service companies choose profitable markets. The researcher is a seasoned banker with a solid background of banking rules and regulations, coupled with the local and international banking expertise.

7.3 RECOMMENDATIONS

The researcher provides a credible statement on the way forward by ABSA in banking the previously economically disadvantaged groups in South Africa. ABSA needs to streamline its operations and start to outsource some of its operations to lower risk and operational costs. The alternative option could be to franchise or enter into partnership with the prominent entrepreneurs and retailers in rural and remote areas.

It is vital that ABSA invest in customer satisfaction, because such strategies lead to excess returns and satisfied customers. Retention of future markets are central to creating shareholder value, in the process increasing a firm's cash flow and reducing its cash flow variability. The apex of sustainability and long term profitability in the prevailing environment polluted by substitutes in banking, calls for higher levels of customer satisfaction that can decrease a firm's cost-of-capital and improve bottom-line performance. As a result, extensive market research to study South-African's diversified and complicated customer buying behaviour

patterns is crucial. Based on the above findings the researcher's specific recommendations are as follows:

- The company should stick to what they are in business for. ABSA's success is driven by its vision and it is in this endeavour that maximisation of shareholder's wealth should be the first priority and the leading factor to the sustainability of the organisation.
- Further, the government should take a leading role in the development of infrastructure in rural areas as it has been discovered that the prevalence of infrastructure or services positively influence the decisions of banks to provide services.
- Furthermore, government should endeavour to educate older citizens who may not have had the opportunity to learn during the previous regime. This strategy will assist the people to easily access and to make use of banking services as well as to understand and make use of all options available to Mzansi account holders.
- Still in relation to infrastructure development, it is recommended that the government should intensify its local economic development activities. This will likely stimulate economic activity in rural areas and therefore positively influence the decision of banks to deliver banking services to rural areas.
- While it has been acknowledged that 0.2% of FSC initiatives should be allocated to marketing the Mzansi initiative, it is argued that this may not be sufficient in light of the results of the observational study conducted for the purpose of this study. It is therefore recommended that the government itself should allocate funds for the marketing of Mzansi initiative. This will likely make the initiative more profitable as more clients will be attracted.
- Through vigorous social responsibility activities, ABSA should target the up and coming generation for future income streams. The bank has to take advantage of the charters of other industries and the BBBEE benefits, because there will be more people migrating from the lower income brackets while they will have established a good relationship with the bank.
- The post-apartheid legislation on poverty alleviation and inequality are a marketer's indication of more participation of people in the country's economy. ABSA has to earnestly endeavour to detect the underlying needs of the

PUULIE market because they are a virgin market yet to be harnessed to sustain profitability and growth.

- The last recommendation put forward is the use of local human resources in the form of people from the rural areas in promoting the Mzansi initiative. Also this human resource component would also be useful in applying their knowledge of local banking and practices to inform the tailoring of banking services for rural people. For instance rural people still prefer to use “stokvels” and societies. Banks should tailor their services in line with this requirement.

7.3.1 Recommendations for Future Studies

This study was conducted as a case study and focused on ABSA’s performance from 2003 to 2008, using a triangulation data collection and analysis case study methodology. The researcher recommends a more extensive study on the impact of the Financial Charter Initiative on banks beyond 2008 and further focus on a larger sample of financial institutions, looking at the impact of several variables on non-financial measures of banks in South Africa. The researcher is aware of quite a number of focus areas that this study could not address, due to time and financial constraints.

7.4 CONCLUSION

Data collection through the literature review, case study, and observation methodology techniques proved to be sufficient to address the study’s research question and to dismantle the research problem. The outcome of extant literature on the performance of ABSA and the saving patterns of Mzansi reflected that the performance of ABSA is indeed the result of customer satisfaction. Financial consideration also plays a major impact on the part in business decision undertakings. Companies have objectives and the key objective in all profit-making companies is to maximise shareholders’ funds.

In the light of the data collection for this study, the researcher found that ABSA gained more market share during the years under observation. The growth of 10 million accounts by 2008 is a great achievement for ABSA. Such a market share

growth will not just happen of its own accord. The results portray ABSA's stringent resource allocation and a calculated capital investment decision into the new markets. ABSA expanded its presence into places where there were no ATMs. On the flipside, the reputation of the bank has been tainted because of its high and complicated fee structure.

PUULIE's mass market needs to be given more education on how to use services offered by ABSA through the Mzansi initiative. The financial position of ABSA was not negatively impacted by FSCI up to 2008. The Mzansi initiative has shed light on a most lucrative market yet to be served.

In summary, the study showed that ABSA is operating in the most challenging environment due to legal, political, and socio-economic factors that a company has to focus on, given its objectives to remain in business, to maximise shareholders' funds and to give customers quality service. However, the researcher's findings show that ABSA's performance did not show a negative impact during the years under review.

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APPENDICES

9.1 APPENDIX A: BANK RATIOS

The following is the list of ratios for analysis of performance of banks

Profitability Ratios

- Interest Expenses/Total Income
- Non-Interest Expenses/Total Income
- Non-Interest Income/ Non-Interest Expenses
- Interest Income/ Total Assets
- Interest Expenses/ Total Assets
- Net Interest Margin (NIM) = $\text{NII} / \text{Total Assets}$
- Profit Margin = $\text{Net Profit} / \text{Total Income}$
- Asset Utilization = $\text{Total Income} / \text{Total Assets}$
- Equity Multiplier = $\text{Total Assets} / \text{Equity}$
- Return on Assets = $\text{Net Profit} / \text{Total Assets}$
- Return on Equity = $\text{Net Profit} / \text{Equity}$

Sustenance:

- Capital to Risk Weighted Assets (CRAR) = $\text{Total Capital} / (\text{RWAs})$
- Core CRAR = $\text{Tier I Capital} / \text{RWAs}$
- Adjusted CRAR = $(\text{Total Capital} - \text{Net NPAs}) / (\text{RWAs} - \text{Net NPAs})$

Staff Productivity

- Net Total Income/ Number of Employees
- Profit per Employee = $\text{Net Profit} / \text{Number of Employees}$
- Business per Employee = $(\text{Advances} + \text{Deposits}) / \text{Number of Employees}$
- Break-even Volume of Incremental Cost per Employee = $\text{Cost per Employee} / \text{NIM}$

Asset Quality

- Gross NPAs/ Gross Advances
- Gross NPAs/Total Assets
- Net NPAs/ Net Advances
- Net NPAs/ Total Assets
- Provisions for loan losses/Gross Advances
- Incremental RWAs/ Incremental Total Assets

Total Assets

- Provisions for loans and investments/Total Assets
(RWA = Risk Weighted Assets)

Concepts used in the ratios are as follows:

1. Cash in cash-deposit ratio includes cash in hand and balances with RBI.
2. Investments in investment-deposit ratio represent total investments including investments in non-SLR Securities.
3. Net interest margin is defined as the total interest earned less total interest paid.
4. Intermediation cost is defined as total operating expenses.
5. Wage bills are defined as payments to and provisions for employees (PPE).
6. Operating profit is defined as total earnings less total expenses, excluding provisions and Contingencies.
7. Burden is defined as the total non-interest expenses less total non-interest income.

Definitions of the Ratios:

1. Cash-Deposit ratio = $(\text{Cash in hand} + \text{Balances with RBI}) / \text{Deposits}$
2. Ratio of secured advances to total advances = $(\text{Advances secured by tangible assets} + \text{Advances Covered by bank or Govt. guarantees}) / \text{Advances}$
3. Ratio of interest income to total assets = $\text{Interest earned} / \text{Total assets}$
4. Ratio of net interest margin to total assets = $(\text{Interest earned} - \text{Interest paid}) / \text{Total assets}$

5. Ratio of non-interest income to total assets = other income / Total assets
6. Ratio of intermediation cost to total assets = Operating expenses / Total assets
7. Ratio of wage bill to intermediation costs (Operating Expenses) = PPE / Operating Expenses
8. Ratio of wage bill to total expenses = PPE / Total expenses
9. Ratio of wage bill to total income = PPE / Total income
10. Ratio of burden to total assets = (Operating expenses - Other income) / Total assets.
11. Ratio of burden to interest income = (Operating expenses - Other income) / Interest income
12. Ratio of operating profits to total assets = Operating profit / Total assets
13. Return on assets = Net Profit / Total Assets
14. Return on Equity = Net Profit / (Capital + Reserves and Surplus)
15. Cost of Deposits = IPD / Deposits
16. Cost of Borrowings = IPB / Borrowings
17. Cost of Funds = (IPD + IPB) / (Deposits + Borrowings)
18. Return on Advances = IEA / Advances
19. Return on Investments = IEI / Investments
20. Return on Advances adjusted to Cost of Funds = Return on Advances – Cost of Funds
21. Return on Investment adjusted to Cost of Funds = Return on Investments – Cost of Funds

Financial ratios can be utilised to indicate trend and performance of a bank within the banking industry and may provide a direction in which the bank is progressing.

9.2 APPENDIX B: ABSA ANNUAL REPORTS THAT WERE ANALYSED

- i. ABSA Annual Report 2003
- ii. ABSA Annual Report 2004
- iii. ABSA Annual Report 2005
- iv. ABSA Annual Report 2006
- v. ABSA Annual Report 2007
- vi. ABSA Annual Report 2008

All reports are available on-line at <http://www.absa.co.za/annualreports>

9.3 APPENDIX C: ETHICAL APPROVAL



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22 December 2009

Mrs E Matsoha
P O Box 720
LADYBRAND

Dear Mrs Matsoha

PROTOCOL: The Impact of Mzansi on the performance of ABSA
ETHICAL APPROVAL NUMBER: HSS/0974/2009; Faculty of Management Studies

In response to your application dated 15 December 2009, Student Number: 202515308 the Humanities & Social Sciences Ethics Committee has considered the abovementioned application and the protocol has been given **FULL APPROVAL**.

PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Professor Steve Collings (Chair)
HUMANITIES & SOCIAL SCIENCES ETHICS COMMITTEE

SC/sn

cc: Prof. W Geach
cc: Mrs C Haddon