

## SKILLS VS TRAINING NEEDED BY SMEs IN THE FINANCIAL INTERMEDIATION SECTOR: IS A MARRIAGE BETWEEN THESE TWO BETTER?

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### Abstract

SMEs within the financial intermediation sector has an important role to play in any economy and maybe even more so in a third world economy. This sector provides the country with essential financial functions, such as daily economic transactions, savings and insurance. Attaining the correct skills and receiving the correct training is essential in the survival of these SMEs in an ever changing business environment. This article focuses on the existing skills that SMEs in the financial intermediation sector possess and establishing the skills and training that they need or perceive to need in order to adapt to this environment. The target population for this study consisted of SMEs within the City of Tshwane in South Africa and structured questionnaires were used to collect the data. The results of the study showed that both employers and employees in the financial intermediation sector are in need of essential financial, technical and conceptual skills, and that these will have to be integrated to secure the best possible results.

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### 1 Introduction

The financial sector plays an important role in any economy as this sector provides the economy with many essential functions (World Trade Organisation, 2014). In many instances this sector can be seen as the pulse or lifeblood of any economy due to the vital role it plays. The financial intermediation, insurance, real estate and business service sector includes all those entities engaged in monetary intermediation, real estate activities, insurance and pension funding, renting equipment and machinery, research and development, computer, ICT and related services and business activities such as legal, accounting, bookkeeping, tax consultants, auditing, marketing, advertising, business management, research, and architectural (Bureau of Market Research, 2014:23). A selection of domestic and foreign financial institutions provide assorted services such as commercial, retail and merchant banking, mortgage lending, insurance and investment (Department of National Treasury, 2011:1). At a macroeconomic level, the financial

sector of a country contributes to the creation of jobs, the building of vital infrastructure, sustainable development and it enables economic growth (Department of National Treasury, 2011:1).

However, on a more micro level these institutions perform essential tasks and services in order to ensure the flow of goods and services in a regulated and controlled manner. This study will focus on these institutions.

In South Africa the financial intermediation, insurance, real estate and business service sector has grown tremendously over the past few decades, and has become a leading contributor to the GDP of the country (Bureau of Market Research, 2014:23). The financial sector forms part of the secondary sector of South Africa's economy and contributed 21.1 per cent to the GDP of South Africa in 2013 (Young, 2013). According to Statistic South Africa (2013:2), the finance, real estate and business services sector increased by 3.9 per cent in the third quarter of 2013 compared with the third quarter in 2012. This is an

indication of the relevance and importance of this sector.

South Africa has a well-developed financial services sector, based on extensive and sound regulatory and legal frameworks. The sector is regulated by the Financial Sector Charter which is used to monitor economic growth in South Africa (The Banking Association South Africa, 2013). The Financial Sector Charter defines the key commitments of the sector that enables various institutions to contribute towards economic growth and transformation within the financial services sector (The Banking Association South Africa, 2013). The charter also reflects the sectors commitment to address black economic empowerment. According to the Financial Sector charter, gazetted under section 12 of the B-BBEE act (2012:2), the “Financial Sector Code commits all participants to actively promote a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa, and which contributes to the establishment of an equitable society by providing accessible financial services to black people and by directing investment into targeted sectors of the economy”. There are seven pillars of empowerment that the Financial Sector Charter is built on, namely human resource development, access to financial services, empowering financing, procurement, corporate social investment, ownership and management control (The Banking Association South Africa, 2013). It should also be clear from the above discussion that in order for businesses to operate within these regulations they do require specific skills and training as these regulations and laws change and become more complex on a continuous basis. This study will focus on the human resource development pillar (specifically on the training needs) as mentioned, as it is this pillar that can make or break the organisation.

The financial sector is obligated to adhere to the various Employment Equity and Skills Development legislations such as the BBBEE Act (Act53 of 2003). The Financial Sector Charter states that “where possible, in conjunction with institutions of higher learning, organisations should introduce training programmes in line with the NQF requirements and establish undergraduate and post graduate diplomas and degrees in financial services” (Department of National Treasury, 2011:72).

The charter also sets the following targets with regards to training and development initiatives for designated groups (The Banking Association South Africa, 2013):

- Allocate 1.5 per cent of payroll per annum to train employees;
- Develop skills development programmes to promote skills among employees;
- Implement appropriate mentorship programmes within companies to assist in the rapid development of employees.

It is within this framework that these SMEs operate and need to function. In this section, the financial intermediation sector was defined and the regulations were discussed. The next section discusses the theoretical framework which will look at SMEs and the need for skills and training and development within SMEs.

## 2 Theoretical framework

Small business enterprises (SMEs) play an essential role in any economy as they contribute to the economic growth of the country and create employment opportunities (Cant, 2012:1107). SMEs contribute to the economy of a country by ensuring equal distribution of income, encouraging innovation and supporting monetary stability (Gomes, Moshkovich & Torres, 2010:21). SMEs account for nearly 80 per cent of job opportunities within any given country (Van Scheers, 2011:5048). In South Africa about 70 per cent of the workforce is employed by the SME sector of which 3.9 per cent are in the financial intermediation sector of the economy (Van Scheers, 2011:5048; Department of National Treasury, 2011:3).

Even though SMEs are important to the growth of the economy, they have a high failure rate. Studies reveal that almost 40 per cent of new SMEs fail within their first year of operation and 60 per cent fail by their second year of operation in South Africa (Cant, 2012:1108). This high failure rate is caused by many factors such as the changing economic climate of a country, competition, lack of demand for a product, and lack of necessary skills (Cant & Wiid, 2013:708).

Previous research has focused on the challenges facing SMEs and the lack of skills in SMEs. Research conducted by Kongolo (2010:2293) found that the most general challenges that SMEs in South Africa face are the lack of relevant skills, lack of finance, low production, technology and the lack of access to finance. Agwu and Emeti (2014) researched the challenges and prospects of small and medium scale enterprises, and found that the lack of managerial skills within SMEs constitute a major challenge to the success of SMEs. Their research also found that poor financing, multiple taxation and inadequate social infrastructure were major challenges faced by SMEs (Agwu & Emeti, 2014:110). A study done by Apulu, Latham and Moreton (2011), aimed at identifying factors affecting the effective utilisation and adoption of sophisticated ICT solutions by SMEs, found that SMEs faced many challenges in achieving success. The challenges that were identified included the lack of financial resources, lack of support from government, poor infrastructure and lack of skills (Apu, *et al.* 2011:139).

International competitiveness and the national wellbeing of SMEs are intimately linked to skills development and training within any sector of the economy. When workers in the private and public sector develop and add to their skills, and are able to adapt to changing economic circumstances, a society

is more likely to achieve the social and economic objectives it sets itself. This study focuses on identifying the existing skills that SMEs in the financial intermediation sector possess and establishing the skills and training that is needed by business owners and employees in this sector in order to grow and succeed.

The next section will discuss the research objectives and methodology of the study.

### **3 Research objectives**

The main objective of this study was to determine the skills that SMEs in the financial intermediation sector have and to identify the skills and training that are needed in this sector. It was further envisaged that a closer linkage between the skills and training should be investigated.

### **4 Research design and methodology**

For the purpose of this study SME owners within the City of Tshwane were identified and contacted through various means, which will be discussed below.

#### **4.1 Primary data collection approach**

Several steps were followed in collecting data from this population group. These include the definition of the target population, determination of sample size, data collection and processing, cleaning and tabulation, etc.

#### **4.2 Defining the target population and survey clusters**

The small business study was limited to the City of Tshwane, which consists of seven regions, where each region was used as a cluster or stratum from which a convenient sample of small businesses (survivalists, medium and micro enterprises) was selected.

#### **4.3 Sample size**

Given the number of small businesses in the survey area, it would have taken an extended amount of time to include each SME in the City of Tshwane in the study.

To include each SME would have been costly to implement, hence a representative sample for interviewing purposes were selected. A statistical equation is often used to calculate a representative sample size (Hair, Celsi, Money, Samouel & Page, 2011:177). However, the application of such an equation is limited to cases where a comprehensive database exists. In South Africa there is no single comprehensive small business database, this makes it almost impossible to statistically calculate a representative sample size.

Given the absence of this list, the alternative was to employ a non-probability quota sampling approach,

where at least 30 small business respondents per sector were deemed sufficient. This decision was guided by the principle of homogeneity vs. heterogeneity of the population group – how alike or different its members are with respect to the characteristics of the research interests. If the population is markedly heterogeneous, a larger sample will be necessary than if the population is fairly homogeneous. With this assumed level of homogeneity, it was concluded that at least 30 businesses per sector would provide sufficient information regarding the specific variables under the study. The business sectors were classified into nine sectors which included agriculture, hunting and fishing; mining and quarrying; manufacturing; electricity, gas and water supply; construction; wholesale and retail trade; transport, storage and communication; financial intermediation, insurance, real estate and business services and community, and social and personal services. It was therefore concluded that at least 270 businesses would participate in the study.

#### **4.4 Data collection**

Given the lack of contact details of the targeted SMEs, it was decided that a personal face-to-face method be used to administer a paper-based questionnaire to the selected sample units. The businesses were visited at their respective premises for such interviews. A purposive quota sampling procedure was followed in selecting specific target businesses. Businesses were selected in accordance with the predetermined sample size per sector. The fieldwork was carried out by Unisa students. The Bureau of Market Research (BMR) was responsible for training and guiding the fieldworkers in the execution of the project. The BMR is a research institute that was founded by the University of South Africa. The Bureau conducts socio-economic research of national and international scope and aims to promote a culture of enquiry, innovation and research excellence.

Training of the selected fieldworkers focused mainly on aspects of project conceptualisation, planning, the importance of sampling and adherence to sampling procedure. Each fieldworker was instructed to interview a predetermined number of businesses operating in a particular industrial sector.

#### **4.5 Editing and capturing**

To ensure optimal quality of collected data, central editing of the questionnaires was employed. Thorough editing was carried out at the BMR by well-trained editing assistants and the project leader. All questionnaires were checked for adherence to sample requirements, relevance of complete information, legibility, completeness and comprehensibility. Questionnaires that were not in compliance were dealt with as follows:

- Reverted to the interviewer or respondent. The questionnaire made provision for a respondent's

telephone numbers and other contact details for the purpose of back checks and quality control.

- Have the editor complete the questionnaire. The editor could complete those parts that were not completed, on the provision that answers could be deduced from the completed sections.

- Discard uncompleted parts of the questionnaire.

- Discard the entire uncompleted questionnaire if necessary.

A total of 25 questionnaires were eventually discarded following the process of editing and quality control. A web-based questionnaire, hosted on LimeSurvey was constructed and well-trained data capturees were responsible for capturing the data on the system. At the end of the data capturing process, the database was exported into an Excel spreadsheet, where further data cleaning was conducted. Erroneous entries were inspected and corrected where possible during the cleaning process. After the data had been cleaned the database was exported from Excel into SPSS where data processing and analyses were conducted. This consisted of writing a full SPSS data dictionary, as well as further cleaning of the data. Tabulation for analysis was carried out in SPSS.

#### 4.6 Research instruments

The questionnaire targeting SME entities was designed to capture detailed profiles of the selected businesses. A draft questionnaire developed by the BMR was distributed to members of the community engagement committee for perusal and comment. Furthermore, a full-day workshop was arranged during which the questionnaire was discussed in detail. The final draft questionnaire was pilot tested among five small businesses by a senior staff member of the BMR, which resulted in a few adjustments. The final questionnaire comprised of five sections. Section 1 focused on business location and profile. Section 2 focused on human resource aspects, while section 3 looked at SME use of external service providers. Section 4 addressed business finances, and lastly, section 5 aimed at recording business constraints.

### 5 Research findings

With the aid of the two-factor taxonomy for classifying managerial skills (Yukl, 2010), the skills profile of SME owners/managers is broadly classified into two main categories, namely technical and conceptual skills. The former category (technical) comprises all skills relating to knowledge about methods, processes, procedures, and techniques for conducting specialised activity, and the ability to use tools and equipment relevant to that activity. Low-level managers require more technical skills as they

are in charge of the actual operations. On the other hand, the latter category of skills (conceptual) is primarily concerned with ideas and concepts. Conceptual skills are mostly required by middle, senior and top management as they spend more time planning, organising and problem solving than lower level employees do.

Conceptual skills such as cognitive complexity are essential for effective planning, organising and problem solving (Northouse, 2014:132). A major administrative responsibility is the coordination of the separate, specialised parts of an organisation. To accomplish effective coordination, a manager needs to understand how the various sections of the organisation relate to each other and how changes in one part of the system affect the other parts (Williams, 2013:20). Managers must also be able to comprehend how changes in the external environment will affect the organisation. Strategic planning requires considerable ability to analyse events and perceive trends, anticipate changes, and recognise opportunities and potential problems.

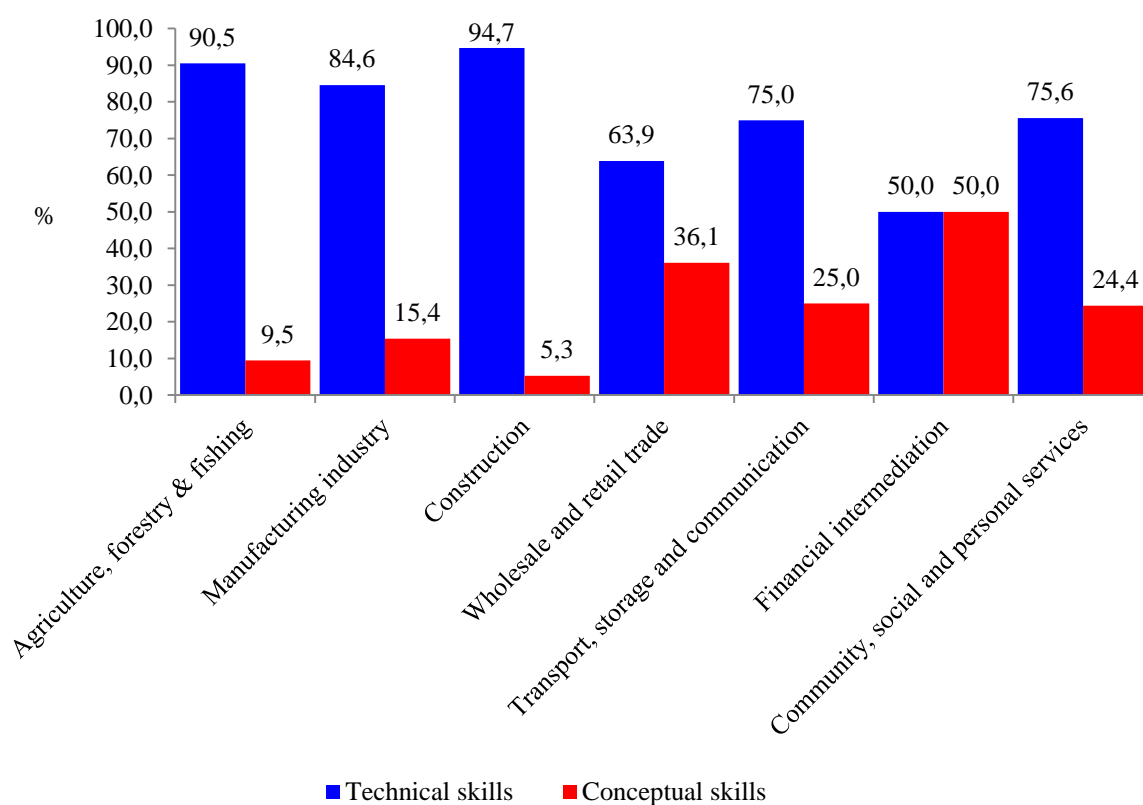
Although the acquisition of both technical and conceptual skills may be facilitated by on-the-job learning and extensive experience with similar problems, the role of formal education cannot be overlooked. Institutions of higher learning, including Further Education and Training (FET) colleges in particular play a crucial role in facilitating the process of learning and acquisition of these skills.

#### 5.1 Management skills

Respondents were requested to indicate the type of skills they have. These skills were later categorised as either technical or conceptual. Following this classification, it is evident from Figure 1 that the majority of SME owners/managers have technical rather than conceptual skills. A similar pattern is not discernible in the financial and intermediation industry where there is a 50/50 split between technical and conceptual skills.

Figure 1 shows the conceptual and technical skills possessed by the different sectors of the economy.

To determine the type of skills that owners/managers within the Financial Intermediation sector possessed, respondents were asked to indicate the type of skills that they had. They were further asked if any additional training was needed by managers, and to indicate the type of training that they think they needed. The following tables comprehensively disaggregate the specific types of skills that respondents have and the skills that are needed by managers within the financial intermediation industry.

**Figure 1.** Conceptual and technical skills per sector**Table 1.** Respondent skills in the financial intermediation sector

Skills	%
Computer	17.2
Finance/accounting	17.2
Marketing/sales	13.8
Business management	10.3
General management	6.9
Events coordinator	3.4
General work	3.4
Insurance	3.4
IT networking	3.4
None	3.4
Public relations	3.4
Quantity survey	3.4
Secretarial & admin	3.4
Software developer	3.4
Statistics	3.4
<b>Total</b>	<b>100.0</b>

Table 1 above presents the skills that respondents in the financial intermediation sector have. About 17.2% reported having computer and finance/accounting skills. It is also evident from this table that there is a high prevalence of conceptual skills among the respondents, especially in the area of marketing where 13.8% of them indicated their

competency in this field. This is followed by 10.3% of respondents who are skilled in business management. Other skills owned by respondents are mainly technical and are largely relevant skills such as IT, insurance and statistics for the financial intermediation sector.

**Table 2.** Respondent training needed

Training needed	%
Marketing & sales	42.9
Business management	19.0
Financial management	19.0
Legal skills	9.5
Development	4.8
Human resource	4.8
<b>Total</b>	<b>100.0</b>

When asked about the type of training they needed, a large percentage (42.9%) of respondents indicated the need for training in marketing, and 19% in business management and financial management skills (see Table 2). A smaller percentage of respondents also indicated a need for training on legal skills (9.5%), development (4.8%) and human resources (4.8%).

The findings show that SME owners/managers in the financial intermediation sector possess both technical and conceptual skills, but there is still a need for further training as majority of the SME owners/managers lack marketing and business

management skills. The results also indicate that their current skills are linked to the type of business they are involved in.

### 5.2 Employee skills

To identify the skills and training needed by employees in the financial intermediation sector, employers were asked to indicate whether any training was needed for their employees and to indicate the type of training that was required. Table 3 below represents the type of skills needed by employees in the financial intermediation sector.

**Table 3.** Percentage distribution by employee training needs: financial intermediation

Training needed	%
Marketing management	27.8
IT	22.2
Business management	11.1
Financial management	11.1
Certificates	5.6
Credit provision	5.6
Customers/client service	5.6
Payroll	5.6
Teamwork/interpersonal skills	5.6
<b>Total</b>	<b>100.0</b>

When asked about the type of training required for their employees, the majority of respondents in the financial intermediation sector (Table 3) indicated the need for training in the marketing (27.8%) and IT (22.2%) fields. Both business management (11.1%) and financial management skills (11.1 %) were also required by employees in the sector. A smaller percentage of respondents indicated that their employees required certification (5.6%), training in credit provision (5.6%), customer/client services (5.6%), and payroll (5.6%). A further 5.6% of respondents indicated that their employees were also in need of soft skills such as teamwork and interpersonal skills.

The above results indicate that there is a lack of technical skills such as marketing, business, finance and IT among employees in the financial intermediation sector.

## 6 Conclusions

The aim of this study was to determine the skills possessed by SMEs in the financial intermediation sector and to identify the skills that are needed in this sector. The results of this study indicate that managers of SMEs in the financial intermediation sector have both technical and conceptual skills. About 17.2 per cent of the respondents indicated that they had computer and finance/accounting skills. The results also show that a large percentage of respondents indicated that there was a need for training in marketing and sales, business management and financial management.

The results also revealed that a large percentage of employees required training in the fields of marketing and IT, and that some training was required for interpersonal skills.

SMEs in the financial intermediation sector provide essential services to the country and as such it

is important that employees of these businesses have the necessary skills and training. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. The lack of skills and training is one of the major reasons why SMEs fail and it is thus important that managers and owners undertake training and skills development initiatives that will develop and grow their staff members.

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