

# THE DEATH OF SME'S BY REGULATIONS: AN INVESTIGATION INTO THE QUALIFICATIONS AND SKILLS REQUIRED IN THE SME FINANCIAL SECTOR

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## Abstract

The financial services sector were faced with numerous challenges of a macro and market nature, even before the financial and economic downturn in 2008, which aggravated the competition among SMEs even further (UEAPME, n.d.:1). The need for the correct skills for the business became more and more important placing a higher premium on the identifying and maintaining of proficient employees in SMEs (UEAPME, n.d.:1), These needed skills became also more and more important in the financial sector. The aim of this study is therefore to investigate the qualifications held and skills required by SMEs in the financial services sector of South Africa in order to be able to address the various regulatory issues and requirements. A non-probability quota sampling approach was used, where 32 small business respondents in the financial services sector participated in the study. The study revealed that SMEs in the financial services sector lack the necessary qualifications and skills to successfully grow and develop their business.

**Keywords:** Financial Services Sector, Skill Shortages, Qualifications, Regulations And Registrations, Smes, South Africa

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## 1 Introduction

The importance and role of SME's cannot be negated and over the years Small and Medium-enterprises (SMEs) has established their place and significance within national economies on a global front (Savlovski & Robu, 2011:277). SMEs play a significant role in the world economy as a whole, and contribute extensively to the income, output and the employment rate within a country, especially in developing countries where major income discrepancies between the wealthy and the underprivileged are at the order of the day (Bharati, Lee & Chaudhury, 2010:1; Reijonen, 2009:1; Savlovski & Robu, 2011:278). Authorities worldwide have recognised the emergent role of SMEs and entrepreneurs as the drivers of economic growth and job creation (OECD, n.d.:1), however, the prolonged world wide financial crises left SMEs in a particularly unforgiving environment, with a decrease in demand for products and services and a reduction in the level of loans given to financial establishments (Edinburgh Group, 2013:3). Even before the financial and economic downturn, which started in 2008, SMEs, by their very nature, were faced with numerous challenges of a macro and market nature, which aggravated the competition among SMEs even further (UEAPME, n.d.:1). The need for the correct skills for the business became more and more

important, placing a higher premium on the identifying and maintaining of proficient employees in SMEs (UEAPME, n.d.:1). These needed skills became also more and more important in the financial sector.

As the universal financial crisis continues to subside, organisations in the financial sector are suffering new concerns as they deal with a vibrant market and a vigorous, and often murky, regulatory environment, while still supporting or boosting profitability and competitive positioning (FS Insights, 2013:1). Current and emerging regulations as well as the required qualifications and skills of employees in the financial sector, are inevitable to have a major influence on the growth and development of financial service organisations (FS Insight, 2013:1), especially small organisations. Viall (n.d.:2) states that the success and survival of financial service organisations are faced with two major challenges, namely generating continued revenue and conforming to regulations. Various studies found that SMEs tolerate a disproportionate regulatory burden in comparison with larger organisations (European Commission, 2007:4). This can be ascribed mainly due to a large proportion of regulations resulting in costs that are fixed and which do not vary much based on the size of a business - implying a higher proportional cost to smaller organisations. It is also a fact that larger organisation have the means and resources to employ

experts to deal with regulatory agreements and requirements, while SMEs do not necessarily have these resources placing an additional burden on SMEs (European Commission, 2007:4). It is therefore critical that SMEs, in all sectors of the economy, have the necessary skills and abilities in all areas of their business in order to be competitive. Without these skills SME's will be less competitive and not be able to keep abreast of especially financial regulatory issues.

The main aim of this article is therefore to investigate the qualifications held and skills required by SMEs in the financial services sector of South Africa in order to be able to address the various regulatory issues and requirements. This article will further focus on the financial regulatory environment of South Africa and its impact on SME's, as well as the skills and qualifications required of employees operating in the financial services sector of South Africa.

## **2 Financial Regulations And Required Qualifications Of Individual Operating In The Financial Services Sector In South Africa**

The South African financial services sector encompasses around R6-trillion in assets, while contributing approximately 10.5% yearly to the Gross Domestic Product (GDP) of the economy. The financial services sector of South Africa also contributes 3.9% to the employment rate and provides at least 15% of corporate income tax (National Treasury, 2011:4). The financial sector has outlasted the global financial crisis reasonably unharmed and sustained its sturdy performance. However, as with most financial sectors, South Africa has become more globally connected and possibly exposed the county to momentous risks (National Treasury, 2011:4).

A brief overview of the financial regulations in South Africa is discussed in the subsequent section. This is important as it puts the required skills in perspective as required by SME's.

### **2.1 Financial regulations in South Africa**

The financial services sector is at the heart of the South African economy and impacts on all residents and businesses. The financial services sector facilitates economic development, job creation, the construction of vital infrastructure and the sustainable expansion of South Africa (National Treasury, 2011:1). However, the worldwide financial crisis stressed the vast amount of costs resulting from an inadequately regulated financial services sector. Although the financial institutions of South Africa were buoyant in the midst of the financial crisis, the

indirect influence through employment losses was demoralising (Falkena, Bamber, Llewellyn & Stone, 2001:iii; National Treasury, 2011:1-2). On a global spectrum, however, much has been done to improve the regulations of the financial sector (National Treasury, 2011). These financial service regulations have matured considerably in the past decade, but are still a heavy burden that lays on SMEs (Gray & Hamilton, 2006:1).

Besides the importance of a rigorous, well-regulated financial system for the purpose of financial stability, a well regulated financial system also assists in the growth and development of the economy and the creation of employment opportunities (National Treasury, 2011:23). Financial regulations are a form of guideline or supervision, which subjects financial establishments to certain requirements, constraints and rules, aiming to maintain the integrity of the financial system (Investor Words, 2014: not indicated). It is also needed to ensure the smooth flow institutions.

The main purpose of regulating the financial sector can be summarized as follows (National Treasury, 2011:24; Van Wyk, 2011:7):

- Upholding buoyancy in the financial system and sustaining systemic stability.
- Certifying that financial service providers are properly registered and licensed.
- Encouraging proper market behaviour and prosecuting cases of market misconduct, thereby safeguarding the consumer.
- Sustaining the well-being and dependability of financial establishments.
- Implementing pertinent laws and regulations.

The most eminent financial regulatory services Act in South Africa, which governs the adherence to financial regulations, is The Financial Advisory and Intermediary Services (FAIS) Act (Act 37 of 2002). FAIS is legislation that has an effect on the financial services industry and primarily aims to regulate, amongst others, information offered to customers as well as the rendering of intermediary services to clientele (South Africa, 2002:6; Sanlam, 2014:1). The FAIS Act impacts on most financial institutions, financial service providers and their representatives.

While entities concede to the regulatory changes that aim to enhance the stability of the financial system, institutions in the financial services sector are struggling with the volume and swift pace of these regulatory modifications. The most dominant concerns for the financial services sector are the increased costs due to adherence with changing regulations, the ambiguity regarding the requirements for applying new regulations and the trepidation that the overall impact of regulatory changes will thwart the capability of companies to conduct business (Western Cape Government, 2014:8). SMEs in the

financial service sector therefore need to poses certain qualifications and skills in order to adhere to these changing regulations and have the skills and abilities to implement them. Generally speaking, these changes are the responsibility of one or maybe two people in a small business, compared to maybe a department in a larger organisation. The FAIS Act does however make provision for the training and development of authorised financial service providers to acquire the necessary skills and qualifications – but even this requires much time of the members of the smaller companies (Chodokufa & Chiliya, 2014:94). The fact however remains that this knowledge must be acquired by the businesses.

### **3 Skills Shortages In The South African Financial Services Sector**

The shortages of skills are experienced in various sectors and on many levels – not only in South Africa but worldwide; however, certain sectors or industries are affected more negatively than others (Gloeck, 2006/7:31). The declaration of laws and regulations, such as the FAIS Act and the Public Finance Management Act (PFMA) has caused a paradigm shift away from administration to specifically management and performance management skills (SAIGA, n.d.:3). It must be noted that many of these laws and regulations came about due to the wide spread corruption in some of the major international banks, the Enron scandal and many others – which led to the worldwide financial crises in 2008. These new regulations have taken organisational liability to new levels, which require expert skills and competences to implement the improved and comprehensive reforms – skills that many do not have or cannot afford to buy in. Entities in the financial service sectors are now required to prepare and publicise financial statements on a yearly basis, apply international accounting standards, manage according to predetermined and measurable objectives, and report on their performance. Entities in the financial sector are also required to conduct risk assessments on a routine basis, and operate extremely sophisticated governance structures, such as internal audit functions (Gloeck, 2006/7:31; SAIGA, n.d.:3). It is therefore clear that these regulations pose massive challenges in the SME financial services sector of South Africa as certain qualifications and skills are required to survive and flourish. Van Zyl, du Toit and Fourie (2002:10) state that skill shortages of experts and specialists pose problems to the financial sector, as the lead-time and costs associated to train employees in these fields are both time consuming and expensive. In many instances when these skills have been acquired, the trained employee is snatched up but a larger

organisation depriving the smaller institution of these skills once again.

#### **3.1 Marketing skills shortages in the financial services sector**

Over the last few years the financial services sector have been subject to extensive disruption in their traditional ways of doing business (Knights, Sturdy & Morgan, 1994:42). The financial services sector is perceived as having been highly underdeveloped and reluctant to adopt the marketing concept (Knights *et al.*, 1994:42). Political re-regulation has shaken the financial services sector to its roots, resulting in regular revelations of highly respectable companies suffering the humiliation of hefty fines from the regulators for non-compliance with regulations and legislations, such as the Consumer Protection Act, The National Credit Act and the National Credit Regulator (NCR) as well as FAIS.

The main aim of The Consumer Protection Act, No. 68 of 2008, is to promote a fair, accessible and sustainable marketplace for consumer products and services, and establish national norm and standards to ensure consumers are protected at all times (The South African Labour Guide, N.D.:1) Section 1(c) of the Consumer Protection Act allows a consumer to pre-emptively block any financial supplier from marketing their products directly to the consumer. Furthermore, the Minister of the Department of Trade and Industry established a registry in term of which consumers can list themselves as members to whom direct marketing is prohibited. Section 12 of the Consumer Protection Act, specifically state that no financial supplier may market directly to a consumer at their place of residence on specific days.

Alternatively, The National Credit Regulator (NCR) was established as the regulator under the National Credit Act, No. 34 of 2005 and is responsible for the regulation of South African credit industry (NCR, 2014:1). The National Credit Act also states that no financial supplier may market any credit agreement by attending at a consumer's place of residence, except in circumstances where the consumer directly requested the financial supplier to market and/or to offer a specific financial product to the consumer.

It is evident that these acts and regulatory boards have an effect on financial institutions and restrict them from marketing in certain ways. The implementation and enforcement of these laws and regulations have a significant effect on the growth and development of small financial institutions. Small businesses lack the necessary skills and qualification in order to market efficiently because of the strict regulatory environment in which they operate.

This study therefore aims to determine the qualifications and skills that employees and owners of small (SME) financial services institutions within South Africa currently possess. This will provide an indication of the capabilities of the small businesses in the financial sector in South Africa as well as areas in which employees require training and development. Furthermore it will indicate whether the skills identified by the employees are in fact deemed relevant and necessary to their positions, as well as the demands as placed on them from the financial regulatory side.

#### 4 Research Purpose and Objectives

The purpose of this article is to investigate the qualifications held and skills required by SMEs in the financial services sector of South Africa.

The secondary objective of this research initiative is as follows:

- To determine the qualifications held by employees employed in SME financial institutions within South Africa.
- To establish the skills acquired by employees operating in SME financial institutions in South Africa.
- To determine the training that employees operating in the small (SME) financial sector require in order to be successful.

#### 5 Research Methodology

A non-probability quota sampling approach was used for the purpose of this study, where 32 small business respondents in the financial intermediation sector participated in the survey. The sample population for this study comprised of small businesses in the City of Tshwane, which operates in the financial intermediation sector, including entities engaged in monetary intermediation, insurance, pension funding, real estate, renting of equipment, computer services, bookkeeping, auditing, legal, tax consultants, marketing, research and business management.

Given the lack of contact details of the targeted small businesses, it was decided that a personal face-to-face method be used to administer a paper-based questionnaire to select sample units. 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 results obtained for the purposes of the study, are examined next.

#### 6 Research Findings

The first question asked respondents to indicate the type of skills they possess, their qualification and the training that they need in order to grow. Table 1 presents the skills that respondents in the financial sector have.

**Table 7.** Skills of respondents in the financial 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> |

As can be seen from table 1, 17.2% of the respondents reported having computer and financial or accounting skills. It is also evident from this table that there is a high prevalence of conceptual skills

amongst the respondents, especially in the area of marketing where 13.8% of respondents indicated their competency in this field. This is followed by 10.3% of respondents who are skilled in business

management. The rest of the skills possessed by respondents in the financial sector include, amongst other, insurance, IT, and quantity surveying skills.

The second part of this question, asked respondents to state the qualifications of the person

responsible for managing the small business. table 2 presents the qualifications of respondents in the financial intermediation sector.

**Table 8.** Qualifications of respondents in the financial sector

| Qualifications                   | %            |
|----------------------------------|--------------|
| BCom (accounting/finance)        | 22.6         |
| Standard 10                      | 22.6         |
| Diploma in business management   | 13.1         |
| Diploma in IT                    | 9.7          |
| BSc                              | 6.5          |
| Diploma in financial management  | 6.5          |
| Certificate in IT                | 3.2          |
| Degree in public relations       | 3.2          |
| Diploma in marketing             | 3.2          |
| Diploma in office administration | 3.2          |
| National certificate in computer | 3.2          |
| High School                      | 3.2          |
| <b>Total</b>                     | <b>100.0</b> |

As is clear from table 2, 22.6% of the respondents in the financial sector respectively have BCom degrees or Standard 10. This is followed by those who have a diploma in business management (13.1%) and a Diploma in IT (9.7%). As a business offering financial support services, there is a lack in

the number of respondents who are properly educated to be able to employ financial services successfully and confidently.

Respondents were also asked to specify the types of training they needed. The findings are shown in table 3 below.

**Table 9.** Training needed by respondents

| 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> |

As can be seen from table 3 above, a large percentage (43%) of the respondents indicated the need for training in marketing, and 19% in business management and financial management (see table 3). This would seem to be a clear indication from this sector that they have a need to expand or grow their business.

Significantly, although 13.8% of the respondents indicated that they poses marketing skills, the most important skill respondents perceive to be needed is that of marketing and sales. This, especially in small financial businesses, is a major concern (as discussed in the literature) as laws and regulations restrict them from marketing properly and gaining prospective customers more rapidly.

## 7 Conclusions and Recommendations

Globally, the financial services sector is facing a severe shortage of critical skills (PWC, 2012:1). Shortages of accounting and financial skills are impacting very negatively on businesses in general, and on service-delivery within the public sector (Kater, 2011:1). This study therefore aimed to determine the qualifications and skills that employees and owners of small (SME) financial services institutions within South Africa currently posses. This provided an indication of the capabilities of the small businesses in the financial sector in South Africa as well as areas in which employees require training and development. Furthermore it indicated whether the skills identified by the employees are in fact deemed relevant and necessary to their positions, as well as

the demands as placed on them from the financial regulatory side.

The study revealed that SMEs in the financial services sector lack the necessary qualifications and skills to successfully grow and develop their business. A big constraint identified in the literature and reiterated in the empirical findings was that marketing is a skill highly required by financial institution, especially small business, as strict regulations and laws prohibit them from marketing to their full potential. Small businesses do not necessarily have the resources and capabilities to market in various ways by still complying with the requirements as stated in the laws and regulations.

Marketing literature, let alone practice, in this field still remains underdeveloped, particularly with regards to the skill shortages in the marketing field specifically (Knights *et al.*, 1994:45). Financial services continue to lag behind other sectors in the use of strategic and other marketing techniques, including segmentation (Knights *et al.*, 1994:46). It is therefore proposed that further research be conducted to establish a more in-depth analysis of marketing skills and requirements in small financial business and how these regulations and laws affect their growth and prosperity.

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