

# RISKS CONNECTED TO THE WORK FORCE AT THE SMALL, MEDIUM AND MICRO ENTERPRISES

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## Abstract

The aim of this paper is to report on, and examine the impacts of, a skills shortage as a constraint on entrepreneurial development in the townships, specifically that of Khayelitsha, and to identify tools that are essential for the Small, Medium and Micro enterprise (SMMEs) businesses, in Khayelitsha. These skills are critical for the future development of the area. The research design employed in data gathering for this study was both qualitative and quantitative, and the questionnaires used required participants to answer open and closed ended questions. The review reveals, among other factors, a lack of a skilled workforce facing these businesses, and the recommendations made could lead to an empowering tool necessary for business ventures and entrepreneurs to succeed.

**Keywords:** SMMEs, Skills Transfer, Training, Government, Education

## 1. INTRODUCTION

Small, Medium and Micro Enterprises (SMMEs) play an important role in creating employment in most countries. Business entrepreneurs in Khayelitsha tend to lack a variety of adequate business skills and capital to be able to operate and expand their businesses. However, this paper will only focus on the skills shortages experienced by SMMEs. It is therefore crucial to determine the kind of education level that entrepreneurs possess, and be able to identify the gap so as to empower them with necessary skills.

The South African Government and the City of Cape Town have a number of empowerment programmes in place to help SMMEs. However, those in Khayelitsha have, as yet, benefitted little from government initiatives and development in the area. As such, state institutions have an important role to play in terms of providing skills programmes. With these government programmes in place this should empower business owners with the necessary skills so as to bridge the skills-gap.

Evidence from a study by Ikejiaku (2009) on constraints to development indicates that South Africa is facing a high rate of unemployment and little is being done by the government to assist in development of SMMEs. Small businesses can address the challenges of skills strategies and job creation, and that could assist in Gross Domestic Product (GDP) growth of the South African economy (Golden Future, 2011). It is therefore important to have entrepreneurs who are able to tackle unemployment with the necessary skills and business acumen, and SMMEs could therefore play a crucial role in terms of economic development, and in the growth of the South African GDP (Tlhomola, 2010).

## 2. LITERATURE REVIEW

In apartheid South Africa, the majority of the black population lacked access to entrepreneurial opportunities because of their exclusion from appropriate teaching systems, and from the right of access to financial and other resources. Consequently, it is essential to recognise to what degree, and in what manner, previously disadvantaged individuals are now able to engage in business enterprises. The development of SMMEs has been a challenge that the new government has been required to face after the dissolution of the apartheid laws. However, the South African government still lacks adequate resources to sustain small businesses (Mboyane and Ladzani, 2011).

The previous white government also created a hostile education environment (in terms of which there were unsteady life relations, inadequate livelihood circumstances, and no jobs-provision), and failed to supply the expertise required by the South African economy. It is evident that this discriminatory system presented an unstructured, small business sector with slight, or negative, investment opportunities in relation to human resources which the present government has yet to rectify (Hess and Rust, 2010).

Small businesses in Khayelitsha have, as yet, benefitted little from government initiatives and development in the area, and business entrepreneurs tend to lack adequate business skills and capital to be able to operate and expand their businesses. Such problems are further exacerbated by a lack of the available information, and sometimes a complete ignorance of government development initiatives, to promote small business entrepreneurial ventures.

The capacity to deliver sustainable business development, specifically in the area of small business support, has been proved to be insufficient (Ngxiza, 2011). The shortage of relevant skills

relating to the completion of forms for funding applications for micro enterprises, for example, poses a challenge, and still inhibits the on-going needs of SMMEs.

The Department of Trade and Industry (DTI) strategy document classifies direct empowerment as moves that must result in an increase in ownership and control of the economy by black persons and their participation in decision-making in boards, at executive management, and at operational levels. The indirect empowerment of black people through preferential treatment by the National Government, as well as by the private sector, promotes new enterprises. Such empowerment measures provide SMMEs with opportunities to expand their businesses. Enterprise development is an additional but important component of Broad Based Black Economic Empowerment (BBBEE). Such development may be achieved through investing in black-owned and black-empowered enterprises, and through participating in joint ventures with black-owned, and black-empowered enterprises, that is likely to result in skills transmission (South Africa. DTI, n.d).

The National Youth Development (NYDA), which was previously known as the Umsobomvu Youth Fund, was formed by the Government in 2001. It was assigned the task of promoting entrepreneurship, job creation, and skills development and transfer, especially among South Africans between the ages of 18 and 35 years, and women-owned enterprises irrespective of age (Mazwai, 2009). Furthermore, Local Economic Development (LED) is supported in two ways: through entrepreneurship education, including management and skills training, and entrepreneurship facilitation, which involves ensuring that the local communities participate fully in the local economic activity.

There are some institutions in place in Khayelitsha, such as Zenzele a Non-Government Organisation (NGO), where the key focus is on vocational skills training, and on small business development for unemployed people, especially the youth. To date (2015), the organisation has trained more than 9 000 people in woodwork, sewing, pottery, and welding skills. The organisation has assisted people either to become formally employed or to become self-employed (Zenzele, 2009). An additional NGO that uses training as a development tool for micro enterprise is Uthango. This organisation, which is particularly active in the Western Cape, collaborates with the wholesale and retail sectors to assist small businesses develop skills through training. This NGO had assisted over 150 SMMEs in Khayelitsha and Guguletu some years ago (Uthango, 2010).

Training in business skills is essential to prepare entrepreneurs for meeting daily challenges in the business. Entrepreneurs need to mastermind new technology in order to compete effectively in the global market. A lack of education and business acumen hampers the development of business development skills, which are required with regard to products, supplier price negotiations, and payroll management (Van Vuuren and Groenewald, 2007).

Kerimova (2008) states that education should be extended beyond skills training and that it should prepare individuals for change. Education in small business should be introduced at grassroots level,

meaning that it should be introduced at primary school level to facilitate the nurturing, and grooming, of young people in business entrepreneurial ventures. In contrast, the researchers recommend entrepreneurship education to progress from primary school level, through secondary schools to tertiary education. According to Isaacs, Visser, Friedrich and Brijal. (2007) there appears to be no positive correlation between education and business creation in South Africa. The researchers agree that business education should be introduced at a primary level as a means of equipping learners with an understanding of the nature of a business. In addition, entrepreneurship education should be aligned with the demands of industry. (Isaacs et al., 2007) established that the key to instituting a custom of entrepreneurship in South Africa is learning that is based, in its entirety, on all stakeholders concerned, inclusive of the Ministries of Education and manpower, learners, and teachers.

The significance of entrepreneurial education as the driving strength behind the success of the businesses cannot be ignored as management skills play a major role in entrepreneurial success (Damiani and Ricci, 2013). In South Africa, post-school business education includes entrepreneurship education and guidance, which incorporates such supplementary themes as newness and risk-taking (Isaacs et al., 2007).

Kerimova (2008) states that the main focus of training in business should be on skills training, including technical and entrepreneurial skills, where the business skill training refers to formal training, which covers all aspects of predictable management. The technical skills-training deals with the capability to apply knowledge, or the technique of a particular discipline, to attain positive results in a business. According to Richards (2006), education plays a major role in any country, in terms of it boosting the gross domestic product of the Western Cape Province, and South Africa. The lack of higher education has also been shown to result in a lack of networking, and an inability to access resources, which are vital to sustain any small business. An inadequate education is exacerbated by geographic, cultural, or social inadequacies, by lack of access to free information through personal networking, and by the presence of relatively few resources.

The inability to complete forms for funding applications satisfactorily also poses a challenge, and inhibits the development of SMMEs. Thomola (2010) states that the level of education of the entrepreneur significantly affects the growth of an enterprise, and it can enhance the ability of entrepreneurs to solve problems related to the business. Isaacs et al. (2007) elaborates on education in business, by stating that entrepreneurial skills are essential.

To enable the learner to survive and thrive in the world of business, researchers generally agree that added emphasis should be placed on entrepreneurship education and training, as opposed to business education. Business and entrepreneurship education should form part of the school curriculum, as it would be advantageous to empower children at grassroots level, and to enable them to reflect like business owners at an early stage, while they are still at school.

Moreover, business skills, technical and entrepreneurial training need to form part of the curriculum, so as to empower young and upcoming entrepreneurs. Tlhomola (2010) states that entrepreneurship training should be compulsory at all levels in universities. Entrepreneurs should be educated, and given the necessary training, as such education and training would help their business to succeed. With the high levels of unemployment in South Africa, achieving growth requires entrepreneurs who are creative and innovative, and who can develop.

**3. RESEARCH DESIGN**

The study adopted a mixed research methodology, using both quantitative and qualitative investigation. Because of the unknown population size of Khayelitsha, the target sample size for this study was set at n=70 for both questionnaire and interviews, and ultimately the sample consisted of n=57 business owners, as n=13 of the identified participants were unwilling to take part in the research. During the pilot study five interviews were done and two in-depth questionnaires. In terms of the main study the anticipated target for the questionnaire study was 50 and the responses were 39. The main study for the interviews and target responses was 20 and the responses were 18.

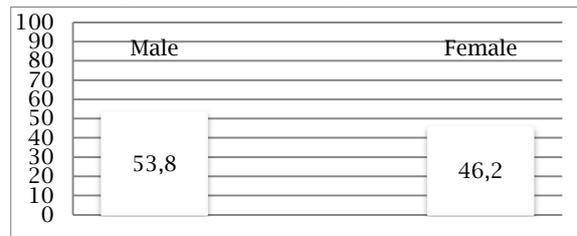
The data collection techniques utilised in this study were a questionnaire and interviews with formal and informal business persons. A pilot study was prepared as a pre-test for the main study. The data were collected during the first-phase pilot study, as well as during the second phase of the main study, through interviews and questionnaires. The data from the two techniques sources as married for the purposes for this article and

presented below. The research questions were structured to establish the major challenges that are experienced in business in Khayelitsha. Likert scale questions (qualitative questionnaires) were posed to the respondents as a means of obtaining their opinions, which were indicated in bipolar adjective pairs (using a 5-point rating scale). Interviews were conducted to obtain more information, post the survey questionnaire exercise.

Figure 1 represents the gender profile of the sample concerned, which comprised 53.8% men and 46.2% women. It is clear from the statistical findings that the males dominated the sample, as is a fact in Khayelitsha confirmed during the interview sessions. The findings presented in Figure 1 contradict the findings of Chiloane-Tsoka (2013), who is of the opinion that, in a Uganda-based study, more women participated in the business sector, accounting for 90% of the total, and 10% of men. As women comprised a broader portion of the population at the time of the study, it is important that their participation in the business sector should be fully represented

**4. RESULTS**

**Figure 1. Gender composition (n=39)**



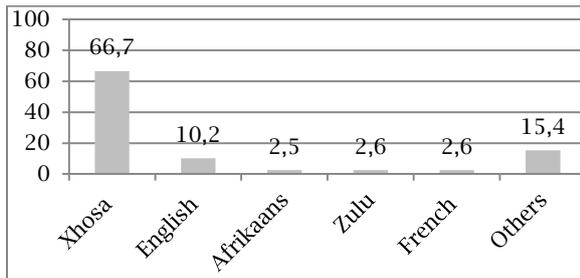
**Table 1. Education background**

Gender	No formal education	Grade 1 - Grade 11	Matric/Grade 12 completed	Undergraduate degree	Postgraduate degree	Total
Males	1	6	4	7	2	20
Female	1	11	1	4	1	18
Total	2	17	5	11	3	38

As part of the in-depth exploration of the gender and education profile, the distribution of men and women was examined by means of cross-tabulation on the variables. Table 1 indicates that in terms of education qualifications, only one woman had completed matric in comparison with four men; seven men had undergraduate degrees, compared to four women; and two men had a postgraduate degree, compared to one woman. This suggests that the majority of the women who took part in the study had inferior qualifications to the men, and that there was a high illiteracy level among the women, as compared with the men. The findings

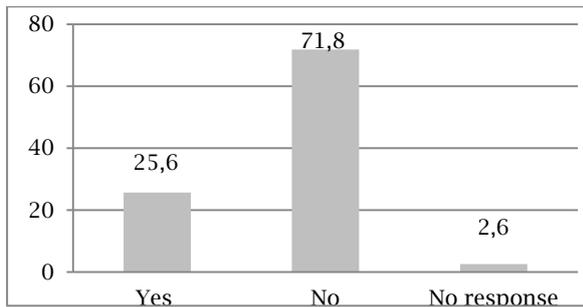
agree with those of Peters, Van Gensen, Issacs, Botha and Naicker (2014), who affirm that in comparison with female entrepreneurs, male entrepreneurs are more educated, and also tend to have business and managerial skills. This is, therefore, a concern, as the gender distribution implies that most female business owners have relatively low educational levels. Qualifications play a role in business as the better the entrepreneur is qualified, the more likely it is that they could be successful. Therefore there is, possibly, a strong correlation between education and business success.

**Figure 2.** Home language



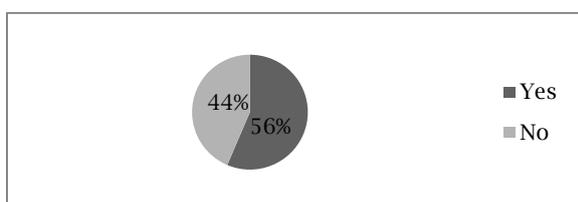
The data shown in Figure 2 indicates that isiXhosa is the dominant language in Khayelitsha, as it was spoken by 66.7% of the respondents, with those who were English-speaking being 10.2%, Afrikaans-speaking 2.5%, isiZulu-speaking 2.6%, French-speaking 2.6%, and other African language-speaking 15.4% of the participants. The City of Cape Town (CoCT) report reveals that the demographic profile for Khayelitsha represents 98.6% Black African, Coloured 0,6% , Asian 0.1% , White 0.1% and Other 0.6% (City of Cape Town, 2013:3), so the study profiles is consistent with the demo graphs of the area.

**Figure 3.** Knowledge that private businesses undertake skills transfer initiatives to assist the previously disadvantaged



The data in Figure 3 illustrates that 25.6% of the participants had skill transfers, either from attending courses or through practical applications whereas 71.8% had not and 2.6% did not respond. This implies that, even though there are government and private educational initiatives to assist small businesses, little is known about skills transfer, and therefore this reflects a gap in knowledge leading to the group concerned not benefiting therefrom. These findings agree with those of Bonté and Thévernard-Puthod (2013), who concur that skills transfer supports SMMEs, specifically in terms of subcontracting, and that skills transfer is facilitated through coaching and direct participation.

**Figure 4.** Business education and training crucial to knowing how to operate the businesses



The data in Figure 4 illustrates that 56% of the respondents agreed with the statement that business education and training is crucial to knowing how to operate a business, while 44% said that it was untrue. The findings are in line with Siemens' (2010) findings that training and education programmes for business owners should include the evaluation of the available resources so as to enhance the successful operation of the business. It was evident that there was a need to empower these entrepreneurs, as there was an indication of shortages in the area of management skills, which might be owing to the level of education that they had. In addition, business education is vital for these entrepreneurs so that they can excel in their businesses. This is highlighted in a study by Sharpe (2013), who found that education, training, and mentorship are basic principles for business development.

Peters et al., (2014) affirm that intervention in terms of training and business skills would empower these businesses. In spite of the fact that there were programmes in place to address such challenges, they were not known to these businesses at the time of the study. Training was identified as a serious need as there was a lack of the necessary management skills for operating a business. Such skills as business management and computer skills were identified as a need for the community surveyed.

Figure 5 illustrates that 22% of the respondents indicated that skills development could assist to empower people, 22% in the creation of job opportunities, and 18% for the need to receive government assistance. Another 18% of respondents indicated that they lacked skills, and that people needed to be empowered. The evidence suggests that human capital, job creation, and government support are the most vital aspects towards poverty alleviation. The findings concur with those of Bauchet and Morduch (2012), who are of the view that SMMEs can bring poverty relief and a reduction in unemployment, as well as the creation of additional jobs, especially link to SMME activities.

Figure 6 illustrates that 44% of the respondents said that in terms of reducing poverty their business could create job opportunities, with 11% indicating that participating in skills development would assist in creating jobs in the Khayelitsha community, and with another 11% indicating that they required training. A further 11% of the respondents indicated that having support programmes in place would assist the business, 6% required capital to grow the business, 6% required space and equipment, and 6% did not respond while the remaining 5% stated that obtaining support would assist the business. This confirms that the majority of businesses strongly believed that they could provide employment opportunities and reduce poverty levels given the necessary entrepreneurial skills to operate SMME businesses. The findings agree with those of Bauchet and Morduch (2012), who state that, through SMMEs, job creation can reduce existing levels of poverty.

Figure 5. Decrease the high rate of poverty in Khayelitsha

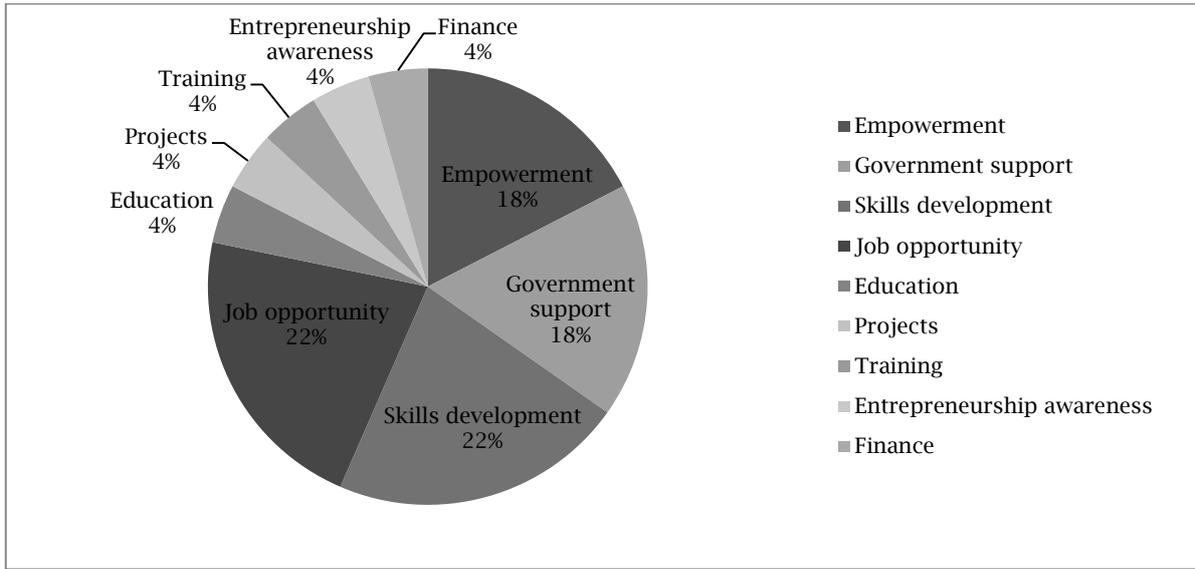
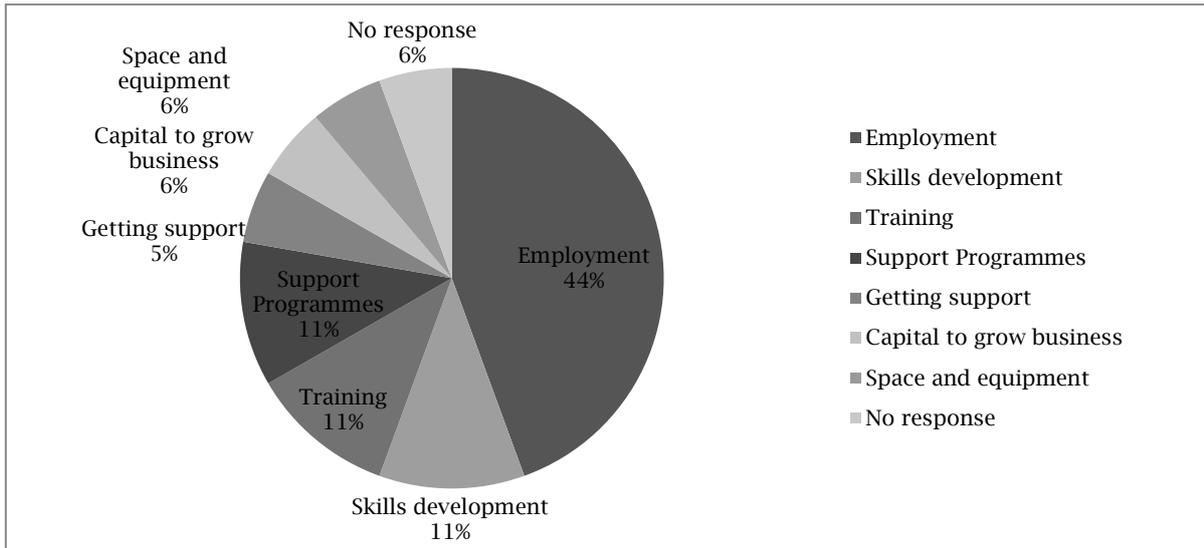


Figure 6. The ability of the business to reduce existing poverty levels



The findings reveal that there is a need to empower these businesses through skills development. Business education is vital for these business owners so that they are able to excel, as there is a suggestion of shortages of computer skills, owing to the level of education that the entrepreneurs have. Also ICT infrastructure has been identified as lacking, and it is clear that the businesses surveyed were not technologically advanced, due to the lack of ICT infrastructure and a shortage of computer skills, which was preventing them from taking advantage of e-commerce. The present environment certainly does not allow them to progress with technology.

**CONCLUSION**

In relation to skill shortages, there should be tangible development support programmes in place that are able to support SMMEs in order to stimulate

empowerment by means of skills development directed at the sustainability of the business, and for mentoring and coaching purposes. The South African Government recognised more than twelve years ago that the training of trainers, and the improvement of business advisory and mentorship skills, is extremely important (SA. DTI, 2003). It is evident, therefore, that in terms of accessing any educational opportunities it is vital that such opportunities be brought to the communities where they are easily reachable, and where they are delivered within the communities, so that the business owners do not have to travel far to access them. Siemens (2010) agrees that education and training programmes for business owners should include an evaluation of the available resources, so as to enhance the successful operations of the businesses concerned. The skills shortages in businesses need to be addressed. Specifically black women’s skills shortages need to be identified, due

to past discrimination and addressed. This matter can be addressed through the provision of skills development by the DTI, in the form of mentoring, coaching and skills development.

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