

SME's Death by Regulations: An Investigation into the Qualifications and Skills Required in the SME Financial Sector

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Abstract

The financial services sector faced 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. The importance of possessing the correct skills for a business became increasingly important, placing a higher premium on the identifying and maintaining of proficient employees in SMEs. These required skills also became increasingly significant 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 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 South African SMEs in the financial services sector lack the necessary qualifications and skills required to successfully grow and develop their businesses.

Keywords: Financial services sector; Skill shortages; Qualifications; Regulations and registrations; SMEs; South Africa

Introduction

The importance of Small and Medium Enterprises (SME's) [1] cannot be negated and have established their place and significance within national economies on a global front over the past few years [2]. SMEs play a significant role in the world economy, and contribute extensively to the income, output and employment rate within their operating country. This is especially true for developing countries where major income discrepancies between the wealthy and the underprivileged are the order of the day [2-4]. Authorities worldwide have recognised the emergent role of SMEs and entrepreneurs as the drivers of economic growth and job creation [5]. However, the prolonged worldwide financial crisis 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 [6]. 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 [6]. The importance of a workforce with the required skills became prevalent, placing a higher premium on identifying and maintaining the proficient employees in SMEs [6]. These necessary skills also became increasingly 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 [7]. Current and emerging regulations, as well as the required qualifications and skills of employees in the financial sector, will inevitably have a major influence on the growth and development of financial service organisations [7], especially for small organisations. Viall [8] 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 [9]. This can mainly be ascribed 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 organisations 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 [9]. 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 they will not be able to keep abreast of 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.

Financial Regulations and Required Qualifications of Individuals 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 [10]. The financial services sector has outlasted the global financial crisis

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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 [10].

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

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, construction of vital infrastructure, and the sustainable expansion of South Africa [10]. 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 [10,11]. On a global spectrum, however, much has been done to improve the regulations of the financial sector [10]. These financial service regulations have matured considerably in the past decade, still remains a substantial burden that lays on SMEs [12].

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 [10]. Financial regulations are a form of guidelines or supervision, which subjects financial establishments to certain requirements, constraints and rules, aiming to maintain the integrity of the financial system [13]. In addition, financial regulations are also required to ensure the smooth flow of institutions.

The main purpose of regulating the financial sector can be summarised as follow [10,14]:

- a. Upholding buoyancy in the financial system and sustaining systemic stability.
- b. Certifying that financial service providers are properly registered and licensed.
- c. Encouraging proper market behaviour and prosecuting cases of market misconduct, thereby safeguarding the consumer.
- d. Sustaining the wellbeing and dependability of financial establishments.
- e. 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) [15]. FAIS is legislation that has an effect on the financial services industry and primarily aims to regulate, among others, information offered to customers, as well as the rendering of intermediary services to clientele [16]. 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 [17]. SMEs in the financial service sector therefore need to possess certain qualifications and skills in order to adhere to these changing regulations and have the means to implement them. Generally speaking, these changes are the responsibility of one or maybe two people in a small business, compared to may be a department in a larger organisation. However, the FAIS Act does make provision for the training and development of authorised financial service providers to acquire the necessary skills and qualifications – but even this requires a considerable amount of time of the members of smaller companies [18]. The fact remains that this knowledge must be acquired by the businesses.

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 also worldwide – however, certain sectors or industries are affected more negatively than others [19]. 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. 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 – for example the Enron scandal– which led to the worldwide financial crisis 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. 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 [19]. 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 [20] 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 time consuming and expensive. In many instances trained employees are snatched up by a larger organisation, depriving smaller institutions of expert skills once again.

Marketing skills shortages in the financial services sector

Over the last few years the financial services sector has been subject to extensive disruption in their traditional ways of doing business [21]. The financial services sector is perceived as being highly underdeveloped and reluctant to adopt the marketing concept [21]. Political re-regulation has shaken the financial services sector's 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 [22]. 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 states that no financial supplier may market directly to a consumer at their place of residence on specific days.

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 the South African credit industry [23]. The National Credit Act also states that no financial supplier may market any credit agreement by going to 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 qualifications in order to market themselves 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 financial services institutions currently possess within South Africa. This will provide an indication of the capabilities of 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 placed on them from the financial regulatory side.

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:

- a. To determine the qualifications held by employees employed in SME financial institutions within South Africa.
- b. To establish the skills acquired by employees operating in SME financial institutions in South Africa.
- c. To determine the training that employees operating in the small financial sector require in order being successful.

Research Methodology

A non-probability quota sampling approach was used for the purpose of this study. Thirty-two 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.

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 possess.

As seen in Table 1, 17.2% of the respondents indicated that they have computer and financial or 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 respondents indicated their competency in this field. This is followed by 10.3% of respondents who are skilled in business management. Respondents in the financial sector also indicated that they have among other insurance, IT, and quantity surveying skills.

The second part of this questionnaire, 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.

It is clear from Table 2 that 22.6% of the respondents in the financial sector respectively have a BCom degree and Standard 10. This is followed by those who have a Diploma in Business Management (13.1%) and a Diploma in IT (9.7%). It is therefore evident that there is a lack in the number of respondents who are financially educated to successfully and confidently be employed in the financial services sector.

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

As seen in Table 3, a large percentage (42.9%) of the respondents indicated the need for training in marketing, and 19% in business and financial management.

This would seem to be a clear indication from this sector that

Skills	%
Computer	17.20%
Finance/accounting	17.20%
Marketing/sales	13.80%
Business management	10.30%
General management	6.90%
Events coordinator	3.40%
General work	3.40%
Insurance	3.40%
IT networking	3.40%
None	3.40%
Public relations	3.40%
Quantity survey	3.40%
Secretarial & admin	3.40%
Software developer	3.40%
Statistics	3.40%
Total	100.00%

Table 1: Skills of respondents in the financial sector.

Qualifications	%
BCom (accounting/finance)	22.60%
Standard 10	22.60%
Diploma in business management	13.10%
Diploma in IT	9.70%
BSc	6.50%
Diploma in financial management	6.50%
Certificate in IT	3.20%
Degree in public relations	3.20%
Diploma in marketing	3.20%
Diploma in office administration	3.20%
National certificate in computer	3.20%
High School	3.20%
Total	100.00%

Table 2: Qualifications of respondents in the financial sector.

Training needed	%
Marketing and sales	42.90%
Business management	19.00%
Financial management	19.00%
Legal skills	9.50%
Development	4.80%
Human resource	4.80%
Total	100.00%

Table 3: Training needed by respondents.

they have a need to expand or grow their business, by employing the skills learnt through a suitable marketing or business management qualification.

Significantly, although 13.8% of the respondents indicated that they possess marketing and sales skills, it is perceived by respondents as the most important skill to require. This, especially in small financial businesses, is a major concern (as discussed in the literature) as laws and regulations restrict them from marketing freely and gaining prospective customers at a more rapid pace.

Conclusion and Recommendations

Globally, the financial services sector is facing a severe shortage of critical skills [24]. The shortage of accounting and financial skills has a negative impact on businesses in general, and on service-delivery within the public sector [25]. This study therefore aimed to determine the qualifications and skills that employees and owners of small financial services institutions within South Africa currently possess. This provided an indication of the capabilities of small businesses in the financial sector in South Africa, as well as areas in which employees require training and development. Furthermore, the study indicated whether the skills identified by the employees are in fact deemed relevant and necessary to their positions, as well as the demands placed on them from the financial regulatory side.

The study revealed that SMEs in the financial services sector lack the necessary qualifications and skills required to successfully grow and develop their businesses. A major gap identified in the literature and reiterated in the empirical findings was that marketing is a skill highly required by financial institutions, especially by small businesses, 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 ways that comply with the requirements as stated in the laws and regulations.

Marketing literature, let alone practice, in the field of financial services still remains underdeveloped, particularly with reference to the skill shortages in the marketing field [21]. Financial services continue to lag behind other sectors in the use of strategic and other marketing techniques, including segmentation [21]. It is therefore proposed that further research be conducted to establish a more in-depth analysis of marketing skills and requirements in small financial businesses, and how these regulations and laws affect their growth and prosperity.

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