African Journal of Business and Economic Research (AJBER) Volume 11, Issue 1, 2016
Pp 93-115

An Analysis of Small Business Skills in the City of Tshwane, Gauteng Province

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Abstract

Small businesses receive much attention in South Africa as vehicles that stimulate economic growth and development. Evidence shows that high levels of unemployment and poverty exist; small business owners and managers have limited skills, capabilities and knowledge; while low levels of education persists. This paper focuses on the technical and conceptual skills of small businesses in the City of Tshwane, Gauteng Province, South Africa. Respondents were selected from nine economic sectors, representing a sample of 270. Data processing and analysis were done by the Bureau of Market Research,

University of South Africa. Chi-square tests show a significant association between the business sector and type of skills possessed. Technical skills are high in all sectors, while conceptual skills lack in most sectors. Small business owners and managers are advised to participate in various initiatives to enhance the level of conceptual skills in particular.

Key words: *Lack of Skills, Technical Skills, Conceptual Skills, Small Business, Small and Medium Enterprise, Entrepreneurship*

Acknowledgements: The authors acknowledge that the data used in this study was based on a report commissioned by the Executive Dean of the College of Economic and Management Sciences (CEMS) for the University of South Africa's (UNISA's) Small Business Development Hub; and was conducted by the Bureau of Market Research (BMR), UNISA.

Introduction

A lack of skilled labour hinders small, medium and micro enterprises (SMEs) in developing countries (Schleuwagen and Goedhuys, 2002). A challenge in southern Africa is skills shortage coupled with low educational levels (Finmark Trust, 2013). The development of specific training and skills, allied with formal education and work experience and/or knowledge, is of crucial significance to the growth of businesses (Cleeve and Ndhlovu, 2015). Entrepreneurship injects vitality and a competitive spirit into the economic landscape that is not readily available from large businesses. Small businesses play a vital role in regional economic development, including the pursuit of new markets (Moutray, 2011). A country's economic prosperity is positively influenced by an entrepreneurship sector and in many countries this development is increasingly reliant upon small, medium and micro (SMME) enterprises. This is particularly true in developing economies where small businesses can contribute

50% and more to the Gross Domestic Product (GDP) of a country (Herrington and Kew, 2013). Yang (2012) claims that small businesses employ more than 50% of the workforce, they produce more than 30% of export value, and represent 97% of exports in most countries.

Small businesses associated with "solo" entrepreneurs generally have limited pools of skills, capabilities and knowledge to draw upon to create, spot and seize profitable business opportunities. Many small businesses are disadvantaged as they have small management teams with few or no specialists (Westhead, Wright and McElwee, 2011). South Africa has a relatively weak SME sector that often lack production, financial and management skills (New Growth Path, 2010). Managers require technical skills and competence to be able to apply their expertise (Lussier, 2003; Wolter, 2014). Conceptual skills are important at management level while technical skills are more important at supervisory levels (Ghillyer, 2009). However, an/a owner/manager of a small business fulfils both supervisory and managerial roles, hence requires both technical and conceptual skills. The literature does not emphasise the importance of combining both technical and conceptual skills for the owner/manager of a small business. It is our view that all levels of management require a combination of technical and conceptual skills.

The objective of the study was to analyse the technical and conceptual skills of small business owners/managers in the City of Tshwane. Background information is presented, followed by a literature overview on small businesses and skills, methodology, findings and conclusion.

Background

The small business sector's contribution to South Africa's GDP was 33% in 1999, increasing to 35% in 2008 - a relatively modest increase (Lind, 2012). The failure rate of new businesses in South Africa is high and fewer than 20% of businesses survive beyond two years (Lind, 2012). Exceptionally high levels of unemployment prevail in South Africa and range from 26% to 36% where 4.6 million people are looking for and cannot find jobs, to another 2.3 million who have given up looking for work. The implication is that approximately 7 million South Africans are unemployed, representing 36% of the labour force (Herrington and Kew, 2013). South Africa comprises of nine provinces. There is an influx of people in the Gauteng province, which is regarded as the economic engine of South Africa (Gauteng Provincial Government, 2013). While Gauteng is the smallest of South Africa's nine provinces, it is the most densely populated province. Gauteng is home to at least 24% of South Africa's population, which is approximately 12.3 million people (Census 2011 Municipal Report - Gauteng/Statistics South Africa, 2012). The population of the City of Tshwane, which falls within the Gauteng province, increased from 2.1 million people in 2001 to 2.9 million in 2011 (Census 2011 Municipal Report – Gauteng/Statistics South Africa, 2012), and is projected to continue increasing over time due to the migration of people from the surrounding provinces and neighbouring countries to Gauteng in search of economic opportunities albeit at a slower rate (City of Tshwane, 2014). The City's key economic sectors are government, social and personal services, finance and business services, motor industry, wholesale and retail trade, and manufacturing (City of Tshwane, 2014). The City of Tshwane has also prioritised the

following sectors: the automotive industry, tourism and related services, agriculture and agro-processing, manufacturing, knowledge economy (research and development), green economy (alternative and renewable energies), business process outsourcing (i.e. call centres), and mining and beneficiation (City of Tshwane, 2011).

A study conducted in the City of Tshwane by the Bureau of Market Research (BMR), University of South Africa (UNISA), shows that there is an imbalance between the skills required by industry and the skills possessed by the economically active population (Masemola and Van Aardt, 2011). The Asian Productivity Organisation (APO, 2001) highlights a lack of skilled labour as an obstacle for SMEs, making it difficult for them to attract highly-educated workers and retain skilled employees (high labour turnover). Upgrading the skills levels of enterprises is an important priority to address economic growth and to combat unemployment in South Africa. A relationship exists between poor levels of education, low levels of business skills, poor business efficiency and a lack of capacity - all of which are common among South African enterprises (Urban and Naidoo, 2012). The gap addressed in this study that small business owners/managers should possess both technical skills and conceptual skills, is supported by research investigations that underline the significance of small business skills. Management skills such as finance in particular are an obstacle for business development, especially in the lower tiers of an economy (Rogerson, 2008).

Literature review

Small business landscape

Encouraging entrepreneurs to invest in the economy is an important aspect of stimulating growth in poor and developing countries (Rodrik, 2007). Investing in this context refers to innovation (employing new technology, producing new products, searching for new markets) and expanding capacity (Stam and Van Stel, 2011). A vibrant small business sector stimulates industry evolution and generates a disproportionate share of new jobs (Deakins and Freel, 2012). Small business owners in Gauteng have the highest likelihood of having post-matric qualifications, and 70% of small business owners in South Africa acquired the skills needed to operate a business by teaching themselves or while managing a business (FinScope, 2010).

South Africa's early stage entrepreneurial activity (TEA) remains very low (6% to 10%), especially when compared with other developing countries such as South America (Singer, Amorós and Moska, 2015). South Africa has very low levels of business activity among all groups and ages in Africa to become entrepreneurs. At 36% of the adult population, it is the lowest in sub-Saharan Africa (Global Entrepreneurship Monitor, 2013). Almost 39% of young people consider that they have the skills for running their own business, which is the lowest rate among ten sub-Saharan African countries (Angola, Botswana, Ethiopia, Ghana, Malawi, Namibia, Nigeria, South Africa, Uganda and Zambia). It raises concerns about the future for employment creation, social cohesion and inclusive growth (Global Entrepreneurship Monitor, 2013). Perceived high levels of both opportunities and skills are, however, encouraging as there is a strong association between

an individual's perceptions of desirability and feasibility towards entrepreneurship and entrepreneurial intentions (Herrington and Kelly, 2013).

Entrepreneurial, technical and conceptual skills

A skill is the ability to demonstrate a system and sequence of behaviour that is functionally related to attaining a performance goal (Wolter, 2014). Entrepreneurial skills focus on the perceived ability to create, identify and exploit opportunities, while managerial skills concern the ability to manage and organise people and resources (Westhead, et al, 2011). Entrepreneurial leadership is based on the attitude that the leader is self-employed. An entrepreneurial leader skilfully fills the roles of visionary, problem-solver, decision-maker and risk-taker (Fernald, Solomon and Tarabishy, 2005). For managerial effectiveness an owner or manager's job should be broken down into critical roles or skills. Such efforts generally conclude that the effective manager must be competent in skill areas such as technical and conceptual skills (Hunsaker, 2014).

Technical skills are the specialised knowledge and expertise used to carry out particular techniques or procedures (Certo, 2013) and are the specific abilities that people use to perform their jobs (Ghillyer, 2009). These skills include the ability to use the tools, procedures and techniques of a specialised field (Hunsaker, 2014). Technical skills focus on technical expertise (Westhead, et al, 2011) and comprise skills that relate to knowledge about methods, processes and techniques for conducting a specialised activity and the ability to use tools and equipment relevant to that activity (Yukl, 2010). To be "technical", skills do not need to be mechanical or scientific; they can involve any work-related technique or procedure (Hysons, 2008). The technical demands of top management

jobs tend to relate to knowledge of a specific industry and an understanding of business processes and products. This is not true for managers at other levels. Managers require technical competence which is the ability to apply specialised knowledge or expertise. Wolter (2014) argues that it is difficult to supervise employees with specialised skills effectively if one does not have an understanding of the technical aspects of a job. People with strong technical skills do not necessarily have the skills needed to manage others. Businesses that successfully promote from the ranks select employees with adequate technical skills and provide them with supervisory training early in their new assignments (Wolter, 2014). Most employees are promoted to their first management position primarily because of their technical skills (Lussier, 2003). When it comes to influencing other people one should have the experience to make recommendations. This experience generally comes from one's technical skills. The employee needs to master a job in an attempt to be viewed as a source of help – the expert. Those "in the know" do influence others. If one wants an employee to have confidence in advice and the direction given, the business owner/manager should be perceived as a technically competent supervisor (Wolter, 2014).

Conceptual skills refer to the mental ability to coordinate all business interests and activities (Hunsaker, 2014). They centre on the ability to understand abstract ideas and select alternatives to solve problems (Lussier, 2003). Conceptual skills are also referred to as *systems thinking*, which is the ability to understand the business and the interrelationship among its parts (Lussier, 2003). Managers who possess conceptual skills have the ability to think in the abstract, analyse large amounts of information and make connections between the data (Wolter, 2014). Business owners with conceptual skills possess

a vision and have good problem-solving abilities (Northouse, 2009). Decision-making, planning and organising are all managerial activities that require conceptual skills (Ghillyer, 2009) and are mostly required by middle, senior and top management (Yukl, 2010). Employees who would like to move into supervisory level management positions should make an effort to develop their managerial skills by learning from their managers (Leonard, 2010).

Management skills are interrelated (Lussier, 2015) and both technical and conceptual skills are important for managerial success. Research has indicated that conceptual skills are required to a greater extent at the chief executive level rather than at lower levels (Hunsaker, 2014). Not all management skills are easy to place in a single category as most fall into more than one category (Ghillyer, 2009). All levels of management require a combination of technical and conceptual skills. Conceptual skills are important at management level while technical skills are more important at supervisory levels (Ghillyer, 2009). The effective 21st century business owner/manager should be a transformational leader. Through the use of outstanding interpersonal skills and analytical application they should be able to motivate others by sharing a strategic vision, while adhering to a rigorous ethical code (Mallinger, 1998). Hunsaker (2014) claims the most important managerial skills include communication and interpersonal skills, an ethical or spiritual orientation, the ability to manage change, and analytical and problem-solving skills.

Skills Shortages

The development challenges confronting Africa are substantial and central to those challenges is an inadequacy of human and

institutional capacity and the absence of a systematic and institutionalised mechanism for peer learning and experience sharing among countries (Ahmed, 2015). Poor recordkeeping and a lack of basic business management skills are major contributors to small business failure in Africa (Tushabomwe-Kazooba, 2006). As a result of the lack of basic business management skills (bookkeeping, inventory management, personnel management and marketing), most business owners end up losing track of their daily transactions and cannot account for their expenses and profits at the end of the month (Okpara, 2011). Better access to finance, skills and business training are key strategic elements in supporting the promotion of entrepreneurship, strengthening the enabling environment, and enhancing the competitiveness and capacity at the enterprise level (Rogerson, 2008).

Globally, South Africa stands at 52 in the ranking of 189 economies on the ease of getting credit, while Mauritius is ranking at 36 and the United Kingdom at 17 (Doing Business, 2015). In sub-Saharan Africa, access to financial services appears to be poor (Finmark Trust, 2013). Funding and development initiatives should focus on efficiency enhancers and should provide a climate that is conducive to the development of small businesses. Efficiency factors include financial market sophistication, technology innovation and development, higher education and training, and labour market efficiency (Herrington and Kew, 2013). Market dynamics and market openness relating to entry regulations are important as they serve as the first barriers or enhancers for potential entrepreneurs in the entrepreneurial process (Herrington and Kew, 2013). The ability of an entrepreneur to move from an idea to the commercialisation of a business requires particular competencies such as knowledge, experience and skills. A lack of skills and training are

particularly problematic in rural areas, while poor skills and training in areas relevant to business include financial literacy, mathematics, science, technology and e-commerce (Herrington and Kelley, 2013). South Africa's educational system, according to the 2014/2015 Global Competitive Index Report, is one of the worst in the world (Singer, et al, 2015). While the perceptions that people have with regard to whether or not they have the skills, education, training and ability to start their own business, good primary and secondary education has a positive influence on an individual's sense of self-efficacy and self-confidence (Herrington and Kew, 2013). From a study conducted by Tustin (2003) on micro and very small businesses in Northern Tshwane, Gauteng, owners and managers at managerial level listed senior, general and production management skills as critical functional business trade skills shortages. Furthermore, the managerial skills identified as necessary include senior management skills (oral and written communication, decision-making, conflict management and group/team management skills); general management skills (recruiting, hiring, training and financial skills); and production management skills (customer services and safety and security skills).

An entrepreneur needs a broad array of entrepreneurial skills to succeed in today's competitive market (Olusola, 2011), while leadership is essential to the growth of any small business (Katz and Green II, 2014). A small business owner/manager should have the experience and skills to use a systematic approach to analyse and solve problems (Katz and Green II, 2014). The main reason for a high failure rate among small businesses is insufficient business skills on the part of the person or group that initiates the business venture (Nkosi, Bounds and Goldman, 2013). When the management skills of the owner/manager are improved, it contributes to business

survival and growth with considerable scope for further improvement in their skills and competences (Battisti, Deakins, Roxas and Coetzer, 2010).

Methodology

The objective of the study was to analyse the conceptual and technical skills of small businesses in the City of Tshwane. The population for this study was small businesses in the Tshwane Metropolitan City. Businesses were classified and selected in accordance with Standard Industrial Classification (SIC) codes as according to the Companies and Intellectual Property Commission (CIPC) (CIPC, 2015). These codes are: (1) agriculture, hunting, forestry and fishing, (2) mining and quarrying, (3) manufacturing, (4) electricity, gas and water supply, (5) construction, (6) wholesale and retail trade, (7) transport, storage and communication, (8) financial intermediation, and (9) community, social and personal services. In the absence of a complete list (sample frame) of all businesses in the City of Tshwane, a purposive sampling method was used and 270 respondents (businesses) participated in the study. An interviewer-administered survey using a paper questionnaire by means of verbal communication was used. The College of Economic and Management Sciences (CEMS), University of South Africa (Unisa), has commissioned the Bureau of Market Research (BMR) to conduct a needs analysis of small businesses in the area. The BMR was established by Unisa as a research institute in 1960. The BMR maintains a database in a variety of fields and conducts research which is mainly funded by contributions from Unisa, companies and institutions who subscribe to the BMR's research as members. Commissioned

research is also done by the BMR on request and focuses then on a specific need defined by a client (Unisa, 2015).

The BMR trained and used students from Unisa to conduct the fieldwork. Each fieldworker had to interview businesses operating in the different sectors. Businesses were visited at their respective premises and a face-to-face method was used for questionnaire administering. Of the 270 interviews conducted, 249 completed questionnaires were received, which translates into a response rate of 92%. This high response rate was achieved because business owners/managers were visited at their workplace. Editing of questionnaires was done by well-trained editing assistants and a project leader at the BMR. Questionnaires were checked for adherence to sample requirements, relevance of complete information, legibility and comprehensibility. Data capturing was also done by the BMR, and the database was exported into an Excel spread sheet where further data cleaning was conducted. Data was then exported into the Statistical Package for Social Sciences (SPSS) and data processing and analysis were conducted, while further data cleaning was done.

Findings

According to Lussier (2003) and Wolter (2014), business owners/managers require technical skills to apply their expertise, while Ghillyer (2009) emphasises that technical skills are more important at supervisory levels. However, conceptual skills are important at managerial level, and small business owners/managers operate as both supervisors and managers. Therefore, both technical and conceptual skills are needed. The objective of the study was to analyse the skills possessed by small business owners/managers in the City of Tshwane, in particular, technical and conceptual skills. A total of 249 small

businesses participated in the study. To achieve the objective of the study, data was collected and analysed using descriptive statistics, cross tabulation and Chi Square Goodness-of-fit Test.

In order to establish whether there is a relationship between the skills of the owner/manager of a small business and the business sector, a Chi-square Test was conducted. The Chi-square Test procedure tabulates a variable into categories and computes a Chi-square statistic. This Goodness-of-fit Test compared the observed and expected frequencies in each category to test either that all categories contain the same proportion of values, or that each category contains a user-specified proportion of values (Garson, 2009). Test statistics such as the Chi-square Test are used to tell the researcher about the true state of the population inferred from the sample (Field, 2013). Table 1 presents the Chi-square Goodness-of-fit Test and table 2, the cross-tabulation of technical and conceptual skills of small business owners/managers (sectors) in the City of Tshwane. Most small business owners/managers in all sectors possessed more technical than conceptual skills. Table 1 shows the value of Chi-square (x^2) = 22.46, while the degrees of freedom on which it was based was eight. It was tested at a 5% level of significance, and it was discovered that there was a significant association between the business sector and the type of skills possessed by the owner/manager: $x^2 (8) = 22.46$; $p < 00.4$.

According to the cross tabulation results in table 2, small business owners/managers lacked conceptual skills in all sectors. Technical skills among small business owners/managers in the City of Tshwane were the highest in the construction sector (95%), followed by the agricultural, hunting, forestry and fishing sector (90%). The lowest percentage of conceptual skills were in the construction sector

(5%), followed by the agricultural, hunting, forestry and fishing sector (10%). Technical and conceptual skills were equally represented in the financial intermediation sector, with 50% for both sets of skills. In lieu of the results as indicated in tables 1 and 2, most respondents in all sectors possess more technical than conceptual skills. It supports the literature, namely, that managers require technical skills and competence to be able to apply their expertise (Lussier, 2003; Wolter, 2014). Although it is important for the small business owner/manager to have technical skills to ensure business survival, there is a need to possess conceptual skills especially at managerial level. In our view the high level of technical skills is an indication that respondents can conduct their trade but they do not know how to manage a business because of a lack of conceptual skills. For example, according to table 2, the ratios between technical and conceptual skills in the different economic sectors reflect as follows: manufacturing 85% - 15%; wholesale and retail trade 64% - 36%; agriculture, hunting, forestry and fishing 90% - 10%; construction 95% - 5%.

Table 1: Chi-Square Goodness-of-fit

	Value	Degrees of freedom	Assumption significance (2-sided)	Monte Carlo significance (2-sided test)			Monte Carlo significance (1-sided test)		
				Significance	95% Confidence interval		Significance	95% Confidence interval	
					Lower Bound	Upper bound		Lower bound	Upper bound
Pearson Chi-square	22.464	8	.004	.004	.003	.005			
Likelihood ratio	24.165	8	.002	.003	.002	.004			
Fisher's Exact Test	21.100	1	.004	.003	.003	.006	.002	.001	.003
Linear-by-Linear Association	8.327			.005	.002	.005			
Number of valid cases	249			.004					

5 cells (27.8%) have expected count less than 5. The minimum expected count is .77.

Based on 10 000 sampled tables with starting seed 2 000 000.

The standardised statistic is 2.886.

Table 2: Cross tabulation

Business sector	**Technical skill**		**Conceptual skill**		**Total**	
	Count	**%**	**Count**	**%**	**Count**	**%**
Agriculture, hunting, forestry and fishing	19	90%	2	10%	21	100%
Mining and quarrying*	3	100%	0	0%	3	100%
Manufacturing	33	85%	6	15%	39	100%
Electricity, gas and water supply*	4	80%	1	20%	5	100%
Construction	18	95%	1	5%	19	100%
Wholesale and retail trade	39	64%	22	36%	61	100%
Transport, storage and communication	24	75%	8	25%	32	100%
Financial intermediation	14	50%	14	50%	28	100%
Community, social and personal services	31	76%	10	24%	41	100%
Total	**185**	**74%**	**64**	**26%**	**249**	**100%**

* Business sectors excluded from discussion below, as they had only a few respondents (total of eight).

This is too disproportionate from an owner's/manager's perspective. This raises a major concern as manufacturing, and wholesale and retail trade are key economic sectors (City of Tshwane, 2014), while manufacturing and agriculture are priority sectors (City of Tshwane, 2011), as identified by the City of Tshwane.

Conclusions and Implications

A key challenge for Africa in the 21st century is to develop an enabling business environment. Upgrading the skills levels of small business owners/managers can assist to increase business efficiency and capacity of small businesses. This study analysed small business skills in the City of Tshwane with a particular focus on technical and conceptual skills of small business owners/managers. Our data reflected that most small business owners/managers possess more technical skills than conceptual skills. It is not only that small business owners/managers in the City of Tshwane possess more technical skills than conceptual skills, but the proportion between the two sets of skills are too disparate. It is therefore our view that initiatives need to be put in place to balance technical skills and conceptual skills for businesses to develop and grow. This will not only reduce the failure rate of small businesses, but will further lead to improvements in skills levels that ultimately stimulate job creation. The authors support the view of Ahmed (2015), who argues that African nations should focus on building capacity for learning and training to ensure technology transfer and knowledge diffusion. The path to development should be driven by the creativity of the human mind and the exploitation of society's tacit knowledge. A skilled work force could be built by

internship programmes, apprentices and incentives to encourage business owners to start new businesses and companies to invest in small businesses. In addition, the partnering of the business community with small business owners/managers to support their skills' levels, growth and development can be encouraged.

Designing learning and development interventions to support small business owners/managers in developing their skills can be used to enhance the overall success of the business. This will assist to increase conceptual competencies for better business management and leadership. Government institutions, industry, universities and non-profit organisations can all collaborate to enable training interventions such as workshops and seminars (Okpara, 2011:168). Education should not only be considered as a means of training, but also as method of building new skills. Building these skills could include task-related activities (critical management-related tasks such as planning, setting objectives and monitoring performance); people-related activities (efforts to manage people such as by providing support and encouragement, recognising contributions, developing employees' skills and empowering employees to solve problems); and change-related activities (efforts to modify components of the business) such as monitoring the environment to detect a need for change, proposing new tactics and strategies, encouraging others to think creatively and taking risks to promote changes that are needed (Certo, 2013). Future research could investigate how skills are recognised and defined, how solutions are considered and implemented by the small business, and the degree to which these solutions are ultimately successful.

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